



## PUBLIC LIMITED COMPANY „KAUNO ENERGIJA“

LIETUVOS BANKAS  
Žirmūnų str. 151  
09128 Vilnius

2013-04-29 Nr. 20-2418

### CONFIRMATION FROM RESPONSIBLE PERSONS

Following the guidelines of 20 article of the Law on Securities Market of the Republic of Lithuania and Lithuanian Securities Commission periodical and additional information preparation and presentation regulations, we General Manager Rimantas Bakas and Chief Accountant Violeta Staškūnienė PLC Kauno Energija approve, that according to our knowledge the PLC Kauno Energija interim financial reporting of the I quarter 2013 is prepared according to the International Financial Reporting Standards, generally accredited in European Union, satisfies actuality and correctly indicate assets, liabilities, financial state, profit (loss) and cash flows.

ENCLOSING. PLC Kauno Energija set of consolidated and parent company's financial statements for the I quarter 2013, prepared according to the International Financial Reporting Standards, as adopted by European Union, 44 pages.

Yours respectfully

General Manager

Rimantas Bakas

Chief Accountant

Violeta Staškūnienė

V. Staškūnienė (8 37) 305 841, 8 686 04932, e-mail: [v.staskuniene@kaunoenergija.lt](mailto:v.staskuniene@kaunoenergija.lt)

Office address: Raudondvario pl. 84, LT-47179 Kaunas-21, LITHUANIA Tel. +370 37 305 650, Fax. +370 37 305 622  
E. mail.: [info@kaunoenergija.lt](mailto:info@kaunoenergija.lt); Internet: [www.kaunoenergija.lt](http://www.kaunoenergija.lt)

**AB KAUNO ENERGIJA**  
SET OF CONSOLIDATED AND PARENT  
COMPANY'S FINANCIAL STATEMENTS FOR  
THE FIRST QUARTER 2013, PREPARED  
ACCORDING TO INTERNATIONAL  
FINANCIAL REPORTING STANDARDS, AS  
ADOPTED BY THE EUROPEAN UNION

**Statements of Financial Position**

|  |      | Group                     |                              | Company                |                              |
|--|------|---------------------------|------------------------------|------------------------|------------------------------|
|  |      | As of 31<br>March<br>2013 | As of 31<br>December<br>2012 | As of 31<br>March 2013 | As of 31<br>December<br>2012 |
| Notes                                    |      |                           |                              |                        |                              |
| <b>ASSETS</b>                            |      |                           |                              |                        |                              |
| <b>Non-current assets</b>                |      |                           |                              |                        |                              |
| Intangible assets                        | 3    | 274                       | 204                          | 217                    | 204                          |
| Property, plant and equipment            | 4    |                           |                              |                        |                              |
| Land and buildings                       |      | 26,110                    | 26,577                       | 24,768                 | 25,220                       |
| Structures and machinery                 |      | 306,363                   | 307,592                      | 306,371                | 307,602                      |
| Vehicles                                 |      | 370                       | 413                          | 398                    | 441                          |
| Equipment and tools                      |      | 10,798                    | 11,605                       | 10,762                 | 11,563                       |
| Construction in progress and prepayments |      | 3,328                     | 2,198                        | 3,328                  | 2,198                        |
| Total property, plant and equipment      |      | 346,969                   | 348,385                      | 345,627                | 347,024                      |
| Non-current financial assets             |      |                           |                              |                        |                              |
| Investments into subsidiary              | 1    | -                         | -                            | 4,602                  | 4,754                        |
| Non-current accounts receivable          | 5    | 45                        | 45                           | 46                     | 45                           |
| Other financial assets                   | 6    | 433                       | 433                          | 433                    | 433                          |
| Total non-current financial assets       |      | 478                       | 478                          | 5,081                  | 5,232                        |
| <b>Total non-current assets</b>          |      | <b>347,721</b>            | <b>349,067</b>               | <b>350,925</b>         | <b>352,460</b>               |
| <b>Current assets</b>                    |      |                           |                              |                        |                              |
| Inventories and prepayments              |      |                           |                              |                        |                              |
| Inventories                              | 7    | 3,967                     | 4,246                        | 3,937                  | 4,155                        |
| Prepayments                              |      | 304                       | 396                          | 316                    | 409                          |
| Total inventories and prepayments        |      | 4,271                     | 4,642                        | 4,253                  | 4,564                        |
| Current accounts receivable              | 8    |                           |                              |                        |                              |
| Trade receivables                        | 23   | 89,308                    | 82,086                       | 89,193                 | 81,981                       |
| Other receivables                        |      | 11,379                    | 6,094                        | 11,379                 | 6,094                        |
| Total accounts receivable                |      | 100,687                   | 88,180                       | 100,572                | 88,075                       |
| Cash and cash equivalents                | 9,23 | 6,868                     | 5,332                        | 6,768                  | 5,308                        |
| <b>Total current assets</b>              |      | <b>111,826</b>            | <b>98,154</b>                | <b>111,593</b>         | <b>97,947</b>                |
| <b>Total assets</b>                      |      | <b>459,547</b>            | <b>447,221</b>               | <b>462,518</b>         | <b>450,407</b>               |

(cont'd on the next page)



**Statements of Financial Position**  
**(cont'd)**

(cont'd)

|   |          | Group          |                | Company        |                |
|---|----------|----------------|----------------|----------------|----------------|
|   |          | As of 31       | As of 31       | As of 31       | As of 31       |
|   |          | March          | December       | March 2013     | December       |
|   | Notes    | 2013           | 2012           |                | 2012           |
| <b>EQUITY AND LIABILITIES</b>                                 |          |                |                |                |                |
| <b>Equity</b>   |          |                |                |                |                |
| Share capital   | 1        | 256,392        | 256,392        | 256,392        | 256,392        |
| Legal reserve   | 10       | 1,307          | 1,307          | 1,307          | 1,307          |
| Other reserve   | 10       | 2,584          | 2,584          | 2,584          | 2,584          |
| Retained earnings (deficit)                                   |          |                |                |                |                |
| Profit for the current year                                   |          | 21,082         | 1,196          | 20,785         | 837            |
| Profit (loss) for the prior year                              |          | 912            | (284)          | 3,898          | 3,061          |
| Total retained earnings (deficit)                             |          | 21,994         | 912            | 24,683         | 3,898          |
| <b>Total equity</b>   |          | <b>282,277</b> | <b>261,195</b> | <b>284,966</b> | <b>264,181</b> |
| <b>Liabilities</b>  |          |                |                |                |                |
| <b>Non-current liabilities</b>                                |          |                |                |                |                |
| Non-current borrowings  | 11,23    | 34,005         | 33,746         | 34,005         | 33,746         |
| Financial lease obligations                                   | 12,23    | 67             | 67             | 67             | 67             |
| Deferred tax liability  | 21       | 8,110          | 8,110          | 8,798          | 8,798          |
| Grants (deferred income)                                      | 13       | 26,226         | 26,546         | 26,226         | 26,546         |
| Employee benefit liability                                    | 14       | 2,176          | 2,173          | 2,022          | 1,996          |
| Other non-current liabilities                                 |          | 23             | 23             | 23             | 23             |
| <b>Total non-current liabilities</b>                          |          | <b>70,607</b>  | <b>70,665</b>  | <b>71,141</b>  | <b>71,176</b>  |
| <b>Current liabilities</b>                                    |          |                |                |                |                |
| Current portion of non-current borrowings and financial lease | 11,12,23 | 6,468          | 8,533          | 6,468          | 8,533          |
| Current borrowings  | 11,23    | 31,126         | 27,631         | 31,126         | 27,631         |
| Trade payables  | 23       | 63,398         | 72,865         | 63,345         | 72,897         |
| Payroll-related liabilities                                   |          | 2,601          | 2,011          | 2,443          | 1,825          |
| Advances received   |          | 1,027          | 878            | 1,027          | 878            |
| Taxes payable   |          | 183            | 1,071          | 172            | 1,038          |
| Derivative financial instruments                              | 15       | 159            | 204            | 159            | 204            |
| Current portion of employee benefit liability                 | 14       | 907            | 1,124          | 877            | 1,003          |
| Other current liabilities                                     |          | 794            | 1,044          | 794            | 1,041          |
| <b>Total current liabilities</b>                              |          | <b>106,663</b> | <b>115,361</b> | <b>106,411</b> | <b>115,050</b> |
| <b>Total liabilities</b>                                      |          | <b>177,270</b> | <b>186,026</b> | <b>177,552</b> | <b>186,226</b> |
| <b>Total equity and liabilities</b>                           |          | <b>459,547</b> | <b>447,221</b> | <b>462,518</b> | <b>450,407</b> |

(the end)



The accompanying notes are an integral part of these financial statements,

|                  |                     |  |               |
|------------------|---------------------|--|---------------|
| General Manager  | Rimantas Bakas      |  | 22 April 2013 |
| Chief Accountant | Violeta Staškūnienė |  | 22 April 2013 |

## Statements of Comprehensive Income

|   | Notes | Group             |                  | 2012<br>I quarter | 2011             |
|---|-------|-------------------|------------------|-------------------|------------------|
|   |       | 2013<br>I quarter | 2012             |                   |                  |
| <b>Income</b>   |       |                   |                  |                   |                  |
| Sales income  | 16    | 166,898           | 369,723          | 175,474           | 309,345          |
| Other operating income                                      | 18    | 759               | 2,091            | 422               | 2,343            |
| <b>Total income</b>   |       | <b>167,657</b>    | <b>371,814</b>   | <b>175,896</b>    | <b>311,688</b>   |
| <b>Expenses</b>   |       |                   |                  |                   |                  |
| Fuel and heat acquired                                      |       | (126,367)         | (296,717)        | (134,343)         | (233,756)        |
| Salaries and social security                                |       | (5,390)           | (22,827)         | (5,297)           | (22,334)         |
| Depreciation and amortisation                               | 3,4   | (4,005)           | (15,879)         | (3,978)           | (15,888)         |
| Write-offs and change in allowance for accounts receivable  | 5,8   | (4,461)           | (5,896)          | (4,583)           | (2,189)          |
| Raw materials and consumables                               |       | (468)             | (1,857)          | (433)             | (1,962)          |
| Taxes other than income tax                                 |       | (1,229)           | (5,073)          | (1,018)           | (4,312)          |
| Electricity   |       | (924)             | (2,574)          | (863)             | (2,515)          |
| Repairs and maintenance                                     |       | (553)             | (5,948)          | (550)             | (5,703)          |
| Water   |       | (518)             | (1,172)          | (303)             | (1,160)          |
| Change in write-down to net realisable value of inventories | 7     | (111)             | (644)            | -                 | (999)            |
| Maintenance of heating and hot water systems                |       | -                 | -                | -                 | (463)            |
| Other expenses  | 17    | (2,164)           | (10,252)         | (2,852)           | (10,661)         |
| Other activities expenses                                   | 18    | (296)             | (1,193)          | (292)             | (1,334)          |
| <b>Total expenses</b>                                       |       | <b>(146,486)</b>  | <b>(370,032)</b> | <b>(154,512)</b>  | <b>(303,276)</b> |
| <b>Profit</b>   |       | <b>21,171</b>     | <b>1,782</b>     | <b>21,384</b>     | <b>8,412</b>     |
| Finance income  | 19    | 430               | 2,463            | 426               | 8,001            |
| Finance costs   | 20    | (519)             | (1,710)          | (563)             | (1,653)          |
| <b>Finance cost, net</b>                                    |       | <b>(89)</b>       | <b>753</b>       | <b>(137)</b>      | <b>6,348</b>     |
| <b>Profit before income tax</b>                             |       | <b>21,082</b>     | <b>2,535</b>     | <b>21,247</b>     | <b>14,760</b>    |
| Income tax  | 21    |                   | (1,339)          |                   | (1,220)          |
| <b>Net profit</b>   |       | <b>21,082</b>     | <b>1,196</b>     | <b>21,247</b>     | <b>13,540</b>    |
| <b>Total comprehensive income</b>                           |       | <b>21,082</b>     | <b>1,196</b>     | <b>21,247</b>     | <b>13,540</b>    |
| Profit attributable to the shareholders                     |       |                   | 1,196            |                   | 13,540           |
| Basic and diluted earnings per share (LTL)                  | 22    | 0,49              | 0,03             | 0,50              | 0,32             |



The accompanying notes are an integral part of these financial statements.

|                  |                     |  |               |
|------------------|---------------------|--|---------------|
| General Manager  | Rimantas Bakas      |  | 22 April 2013 |
| Chief Accountant | Violeta Staškūnienė |  | 22 April 2013 |

## Statements of Comprehensive Income

|   |       | Company           |                  |                   |                  |
|---|-------|-------------------|------------------|-------------------|------------------|
|   | Notes | 2013<br>I quarter | 2012             | 2012<br>I quarter | 2011             |
| <b>Income</b>   |       |                   |                  |                   |                  |
| Sales income  | 16    | 166,853           | 369,462          | 175,462           | 308,622          |
| Other operating income                                      | 18    | 716               | 1,908            | 363               | 1,846            |
| <b>Total income</b>   |       | <b>167,569</b>    | <b>371,370</b>   | <b>175,825</b>    | <b>310,468</b>   |
| <b>Expenses</b>   |       |                   |                  |                   |                  |
| Fuel and heat acquired                                      |       | (126,367)         | (296,717)        | (134,343)         | (233,756)        |
| Salaries and social security                                |       | (5,124)           | (22,078)         | (5,161)           | (21,412)         |
| Depreciation and amortisation                               | 3,4   | (3,996)           | (15,879)         | (3,974)           | (15,842)         |
| Write-offs and change in allowance for accounts receivable  | 5,8   | (4,529)           | (6,210)          | (4,584)           | (2,189)          |
| Raw materials and consumables                               |       | (430)             | (1,766)          | (420)             | (1,847)          |
| Taxes other than income tax                                 |       | (1,220)           | (5,043)          | (1,015)           | (4,286)          |
| Electricity   |       | (920)             | (2,565)          | (861)             | (2,504)          |
| Repairs and maintenance                                     |       | (553)             | (5,948)          | (550)             | (5,703)          |
| Water   |       | (517)             | (1,170)          | (302)             | (1,156)          |
| Change in write-down to net realisable value of inventories | 7     | (111)             | (644)            | -                 | (999)            |
| Maintenance of heating and hot water systems                |       | (66)              | (388)            | (128)             | (1,026)          |
| Other expenses  | 17    | (2,175)           | (10,210)         | (2,863)           | (10,541)         |
| Other activities expenses                                   | 18    | (381)             | (723)            | (133)             | (677)            |
| <b>Total expenses</b>                                       |       | <b>(146,389)</b>  | <b>(369,341)</b> | <b>(154,333)</b>  | <b>(301,938)</b> |
| <b>Profit</b>   |       | <b>21,180</b>     | <b>2,029</b>     | <b>21,492</b>     | <b>8,530</b>     |
| Finance income  | 19    | 430               | 2,463            | 426               | 8,001            |
| Finance costs   | 20    | (670)             | (2,297)          | (563)             | (1,869)          |
| <b>Finance cost, net</b>                                    |       | <b>(240)</b>      | <b>166</b>       | <b>(137)</b>      | <b>6,132</b>     |
| <b>Profit before income tax</b>                             |       | <b>20,940</b>     | <b>2,195</b>     | <b>21,355</b>     | <b>14,662</b>    |
| Income tax  | 21    |                   | (1,358)          |                   | (1,220)          |
| <b>Net profit</b>   |       | <b>20,940</b>     | <b>837</b>       | <b>21,355</b>     | <b>13,442</b>    |
| <b>Total comprehensive income</b>                           |       | <b>20,940</b>     | <b>837</b>       | <b>21,355</b>     | <b>13,442</b>    |
| Profit attributable to the shareholders                     |       |                   | 837              |                   | 13,442           |
| Basic and diluted earnings per share (LTL)                  | 22    | 0,49              | 0,02             | 0,50              | 0,31             |

The accompanying notes are an integral part of these financial statements.



|                  |                     |  |               |
|------------------|---------------------|--|---------------|
| General Manager  | Rimantas Bakas      |  | 22 April 2013 |
| Chief Accountant | Violeta Staškūnienė |  | 22 April 2013 |

## Statements of Changes in Equity

| Group                                 | Notes | Share capital  | Legal reserve | Other reserve | Retained earnings (accumulated deficit) | Total          |
|---------------------------------------|-------|----------------|---------------|---------------|---|----------------|
| <b>Balance as of 31 December 2011</b> |       | <b>256,392</b> | <b>635</b>    | <b>3,468</b>  | <b>10,187</b>                           | <b>270,682</b> |
| Total comprehensive income            |       | -              | -             | -             | 21,247                                  | 21,247         |
| <b>Balance as of 31 March 2012</b>    |       | <b>256,392</b> | <b>635</b>    | <b>3,468</b>  | <b>31,434</b>                           | <b>291,929</b> |
| Transferred from reserves             | 10    | -              | -             | (3,468)       | 3,468                                   | -              |
| Transferred to reserves               | 10    | -              | 672           | 2,584         | (3,256)                                 | -              |
| Dividends                             | 1     | -              | -             | -             | (10,683)                                | (10,683)       |
| Total comprehensive income            |       | -              | -             | -             | (20,051)                                | (20,051)       |
| <b>Balance as of 31 December 2012</b> |       | <b>256,392</b> | <b>1,307</b>  | <b>2,584</b>  | <b>912</b>                              | <b>261,195</b> |
| Total comprehensive income            |       | -              | -             | -             | 21,082                                  | 21,082         |
| <b>Balance as of 31 March 2013</b>    |       | <b>256,392</b> | <b>1,307</b>  | <b>2,584</b>  | <b>21,994</b>                           | <b>282,277</b> |

| Company   | Notes | Share capital  | Legal reserve | Other reserve | Retained earnings (accumulated deficit) | Total          |
|---|-------|----------------|---------------|---------------|---|----------------|
| <b>Balance as of 31 December 2011</b>           |       | <b>256,392</b> | <b>635</b>    | <b>3,468</b>  | <b>13,532</b>                           | <b>274,027</b> |
| Total comprehensive income                      |       | -              | -             | -             | 21,355                                  | 21,355         |
| <b>Balance as of 31 March 2012</b>              |       | <b>256,392</b> | <b>635</b>    | <b>3,468</b>  | <b>34,887</b>                           | <b>295,382</b> |
| Transferred from reserves                       | 10    | -              | -             | (3,468)       | 3,468                                   | -              |
| Transferred to reserves                         | 10    | -              | 672           | 2,584         | (3,256)                                 | -              |
| Dividends                                       | 1     | -              | -             | -             | (10,683)                                | (10,683)       |
| Total comprehensive income                      |       | -              | -             | -             | (20,518)                                | (20,518)       |
| <b>Balance as of 31 December 2012</b>           |       | <b>256,392</b> | <b>1,307</b>  | <b>2,584</b>  | <b>3,898</b>                            | <b>264,181</b> |
| Shareholder (contribution) to cover losses      | 1     | -              | -             | -             | (45)                                    | (45)           |
| Income (loss) statement does not reflect (loss) | 1     | -              | -             | -             | (110)                                   | (110)          |
| Total comprehensive income                      |       | -              | -             | -             | 20,940                                  | 20,940         |
| <b>Balance as of 31 March 2013</b>              |       | <b>256,392</b> | <b>1,307</b>  | <b>2,584</b>  | <b>24,683</b>                           | <b>284,966</b> |

The accompanying notes are an integral part of these financial statements.

|                  |                     |  |               |
|------------------|---------------------|--|---------------|
| General Manager  | Rimantas Bakas      |  | 22 April 2013 |
| Chief Accountant | Violeta Staškūnienė |  | 22 April 2013 |

## Statements of Cash Flows

|  | <b>Group</b>     |                  | <b>Company</b>   |                  |
|--|------------------|------------------|------------------|------------------|
|  | <b>2013</b>      | <b>2012</b>      | <b>2013</b>      | <b>2012</b>      |
|  | <b>I quarter</b> | <b>I quarter</b> | <b>I quarter</b> | <b>I quarter</b> |
| <b>Cash flows from (to) operating activities</b>   |                  |                  |                  |                  |
| Net profit   | <b>21,082</b>    | <b>21,247</b>    | <b>20,940</b>    | <b>21,355</b>    |
| <b>Adjustments for non-cash items:</b>   |                  |                  |                  |                  |
| Depreciation and amortisation  | 4,579            | 4,591            | 4,629            | 4,560            |
| Write-offs and change in allowance for accounts receivable                                     | 4,464            | 4,583            | 4,533            | 4,583            |
| Interest expenses  | 365              | 427              | 365              | 427              |
| Change in fair value of derivatives  | (45)             | (30)             | (45)             | (30)             |
| Loss (profit) from sale and write-off of property, plant and equipment and value of the shares | 27               | 6                | 28               | 6                |
| (Amortisation) of grants (deferred income)   | (320)            | (278)            | (320)            | (278)            |
| Change in write-down to net realisable value of inventories                                    | 111              | -                | 111              | -                |
| Change employee benefit liability  | 26               | -                | 26               | -                |
| Change in accruals   | (59)             | (72)             | (59)             | (72)             |
| Impairment of investment in subsidiary   | -                | -                | 152              | -                |
| Elimination of other financial and investing activity results                                  | (230)            | (260)            | (231)            | (260)            |
| <b>Total adjustments for non-cash items:</b>   | <b>8,918</b>     | <b>8,967</b>     | <b>9,189</b>     | <b>8,936</b>     |
| <b>Changes in working capital:</b>   |                  |                  |                  |                  |
| (Increase) in inventories  | 231              | (137)            | 108              | (160)            |
| Decrease in prepayments  | 92               | 233              | 86               | 226              |
| (Increase) decrease in trade receivables   | (11,260)         | (31,949)         | (11,297)         | (32,009)         |
| (Increase) in other receivables  | (5,711)          | (11,418)         | (5,726)          | (11,413)         |
| (Decrease) increase in other non-current liabilities   | -                | (4)              | -                | (4)              |
| Increase in current trade payables and advances received                                       | (9,318)          | 2,520            | (9,403)          | 2,567            |
| (Decrease) increase in payroll-related liabilities   | 350              | 619              | 492              | 598              |
| Increase (decrease) in other liabilities to budget   | (888)            | 83               | (866)            | 100              |
| Increase (decrease) in other current liabilities   | 28               | 23               | 30               | 26               |
| <b>Total changes in working capital:</b>   | <b>(26,476)</b>  | <b>(40,030)</b>  | <b>(26,576)</b>  | <b>(40,069)</b>  |
| <b>Net cash flows from operating activities</b>  | <b>3,524</b>     | <b>(9,816)</b>   | <b>3,553</b>     | <b>(9,778)</b>   |



(cont'd on the next page)

The accompanying notes are an integral part of these financial statements.

|   | Group             |                   | Company           |                   |
|---|-------------------|-------------------|-------------------|-------------------|
|   | 2013<br>I quarter | 2012<br>I quarter | 2013<br>I quarter | 2012<br>I quarter |
| <b>Cash flows from (to) the investing activities</b>            |                   |                   |                   |                   |
| (Acquisition) of tangible and intangible assets                 | (3,492)           | (2,890)           | (3,441)           | (2,906)           |
| Proceeds from sale of tangible assets                           | 197               | 4                 | 196               | 4                 |
| Interest received for overdue accounts receivable               | 384               | 388               | 384               | 388               |
| Decrease of non-current accounts receivable                     | -                 | -                 | (1)               | -                 |
| Interest received   | -                 | 8                 | -                 | 8                 |
| <b>Net cash (used in) investing activities</b>                  | <b>(2,911)</b>    | <b>(2,490)</b>    | <b>(2,862)</b>    | <b>(2,506)</b>    |
| <b>Cash flows from (to) financing activities</b>                |                   |                   |                   |                   |
| Proceeds from loans   | 3,754             | 15,310            | 3,754             | 15,310            |
| (Repayment) of loans  | (2,054)           | (2,090)           | (2,054)           | (2,090)           |
| Interest (paid)   | (612)             | (527)             | (612)             | (527)             |
| Financial lease (payments)                                      | (11)              | (7)               | (11)              | -                 |
| Penalties and fines (paid)                                      | (154)             | (136)             | (153)             | (136)             |
| Shareholder (contributions) to a subsidiary                     | -                 | -                 | (155)             | -                 |
| Received grants   | -                 | 2,009             | -                 | 2,009             |
| <b>Net cash flows from (used in) financing activities</b>       | <b>923</b>        | <b>14,559</b>     | <b>769</b>        | <b>14,566</b>     |
| <b>Net (decrease) increase in cash and cash equivalents</b>     | <b>1,536</b>      | <b>2,253</b>      | <b>1,460</b>      | <b>2,282</b>      |
| <b>Cash and cash equivalents at the beginning of the period</b> | <b>5,332</b>      | <b>5,936</b>      | <b>5,308</b>      | <b>5,899</b>      |
| <b>Cash and cash equivalents at the end of the period</b>       | <b>6,868</b>      | <b>8,189</b>      | <b>6,768</b>      | <b>8,181</b>      |

(the end)

The accompanying notes are an integral part of these financial statements.

|                  |                     |  |               |
|------------------|---------------------|--|---------------|
| General Manager  | Rimantas Bakas      |  | 22 April 2013 |
| Chief Accountant | Violeta Staškūnienė |  | 22 April 2013 |

## Notes to the financial statements

### 1. General information

AB Kauno Energija (hereinafter the Company) is a public limited liability company registered in the Republic of Lithuania. The address of its registered office is as follows: Raudondvario Rd. 84, Kaunas, Lithuania.

AB Kauno Energija consists of the Company's head office and the branch of Jurbarko Šilumos Tinklai.

The Company is involved in heat and hot water supplies, electricity generation and distribution and also in maintenance of manifolds. The Company was registered on 1 July 1997 after the reorganisation of AB Lietuvos Energija. The Company's shares are traded on the Baltic Secondary List of the NASDAQ OMX Vilnius.

As of 31 March 2013 and of 31 December 2012 the shareholders of the Company were as follows:

|                                 | As of 31 March 2013                 |   | As of 31 December 2012              |   |
|---------------------------------|-------------------------------------|---|-------------------------------------|---|
|                                 | Number of<br>shares owned<br>(unit) | Percentage<br>of ownership<br>(percent) | Number of<br>shares owned<br>(unit) | Percentage<br>of ownership<br>(percent) |
| Kaunas city municipality        | 39,665,892                          | 92.82                                   | 39,665,892                          | 92.82                                   |
| Kaunas district municipality    | 1,606,168                           | 3.76                                    | 1,606,168                           | 3.76                                    |
| Jurbarkas district municipality | 746,405                             | 1.75                                    | 746,405                             | 1.75                                    |
| Other minor shareholders        | 713,512                             | 1.67                                    | 713,512                             | 1.67                                    |
|                                 | 42,731,977                          | 100.00                                  | 42,731,977                          | 100.00                                  |

All the shares with a par value of LTL 6 each are ordinary shares. The Company did not hold its own shares in 2013 and 2012.

On 23 July 2009 in the Company's Shareholders Meeting it was decided to increase the share capital by issuing 22,700,000 ordinary shares with the par value LTL 6 each. Priority right to acquire issued shares was granted to Kaunas city municipality. The issue price of shares is equal to their nominal value. For this share the Company received a contribution in-kind comprising manifolds in Kaunas city with the value of LTL 136,200 thousand which was established by the independent property valutors under the replacement cost method.

On 17 February 2010 in the Company's Extraordinary Shareholders Meeting it was decided to increase the share capital by LTL 682 thousand (from LTL 255,710 thousand to LTL 256,392 thousand) issuing 113,595 ordinary shares with the par value LTL 6 each. The issue price of shares is equal to their nominal value. A building of a boiler house located in Kaunas city, owned by Kaunas City Municipality, and engineering networks located in Jurbarkas city, owned by Jurbarkas Region Municipality, were received as a non-monetary contribution in kind for these shares. The value of this non-monetary contribution as of the transfer date was determined by independent valutors under the replacement cost method.

All shares were fully paid as of 31 March 2013 and as of 31 December 2012.

On 30 April 2012 the Annual General Meeting of Shareholders has made a decision to pay LTL 10,683 thousand, i.e. at 25 cents a share in dividends from the profit of the year 2011. The dividends were started to pay in the end of June 2012, as soon as the permissions under credit agreements from credit institutions were received. The unpaid part of dividends amounting to LTL 13 thousand is accounted for in other current liabilities as of 31 March 2013 and of 31 December 2012.

The Group and the Company are also involved in maintenance of heating systems. On 1 July 2006 on the basis of Kaunas Energy Services Department the Company established the subsidiary UAB Pastatų Priežiūros Paslaugos (hereinafter the Subsidiary). The main activity of the Subsidiary is exploitation and maintenance of building heating network and heating consumption equipment, internal engineering networks and systems as well as building structures. Starting from July 1, 2006 the Company contracted the Subsidiary for permanent technical maintenance of heating and hot water supply systems of the buildings maintained by the Company. Whereas, according to the changes in the Law on Heat Sector, the Subsidiary is not able to provide heating and hot water supply systems maintenance services starting from 1 July 2012, reorganization of the Subsidiary in the way of separation was approved by the decision of the Company's Management Board of 6 April 2012. As of 31 March 2013 and as of 31 December 2012 the Subsidiary accounted for the accruals for the planned employee lay-off.

The Group consists of the Company and the Subsidiary (hereinafter the Group):

| Company                          | Principal place of business | Share held by the Group | Cost of investment as of 31 March 2013 | Writing-off cost of investment reducing the capital as of 31 March 2013 | Loss reported for 2013 after capital reduction and shareholder contribution | Total equity as of 31 March 2013 | Main activities                              |
|----------------------------------|-----------------------------|-------------------------|--|---|---|----------------------------------|--|
| UAB Pastatų Priežiūros Paslaugos | Savanorių Ave. 347, Kaunas  | 100 percent             | 6,518                                  | (1,916)   | 107*  | 4,709                            | Maintenance of heating and hot water systems |

\* the loss of the I quarter 2013 is LTL 145 thousand.

As of 31 March 2013 accumulated impairment loss on investment in UAB Pastatų Priežiūros Paslaugos amounted to LTL 1,916 thousand (31 December 2012 - LTL 1,764 thousand) in the Company's profit or loss in article of financial activity expenses (Note 20).

It has been decided by the decision of the meeting of Subsidiary's shareholders of 28<sup>th</sup> of May, 2012 to reduce authorised capital to LTL 4,915 thousand by adjusting accumulated loss of LTL 1,603 thousand. The new Articles of Association of Subsidiary were registered on 13<sup>th</sup> of June, 2012. It has been decided by the decision of the meeting of shareholders of 16<sup>th</sup> of November, 2012 to reduce authorised capital to LTL 4,754 thousand by withdrawing accumulated loss of LTL 161 thousand. The new Articles of Association of Subsidiary were registered on 7<sup>th</sup> of December, 2012. It has been decided by the decision of the meeting of shareholders of 21 February 2013 to reduce authorised capital to LTL 4,602 thousand by withdrawing accumulated loss of LTL 152 thousand. The new Articles of Association of Subsidiary were registered on 6 March, 2013.

It has been decided by the decision of the meeting of Subsidiary's shareholders of 22<sup>th</sup> of March, 2013 to transfer to Subsidiary LTL 45 thousand shareholder's contribution in, and LTL 110 thousand targeted shareholder contributions, that were transferred in 22 March 2013

#### Legal Regulations

Operations of the Company are regulated by the Heating Law No. IX-1565 of 20 May 2003 of the Republic of Lithuania. Starting from 1 January 2008, the Law amending the Heating Law No. X-1329 of 20 November 2007 of the Republic of Lithuania came in to force. On 13 of October, 2011 the change in Heating Law has been announced. It determines that heating and hot water systems as well as heat points of blocks of flats must be supervised by the supervisor unrelated to the supplier of heat and hot water, who must be chosen by inhabitants of this block of flats, without reference to ownership of these heat points. This prohibition, provided by the law, is not applied to the maintenance of heating and hot water systems of buildings which appear in populated localities with less than 50 000 inhabitants according to the data of the Lithuanian Department of Statistics, if the municipal council doesn't make a different decision. This change in the Law on Heat Sector of the Republic of Lithuania No X-1613 came into force starting

November 1, 2011. Any expenses, related to maintenance of the heat points are not included in a heat price since that date.

According to the Heating Law of the Republic of Lithuania, the Company's activities are licensed and regulated by the State Price Regulation Commission of Energy Resources (hereinafter the Commission). On 26 February 2004 the Commission granted the Company the heat distribution license. The license has indefinite maturity, but is subject to meeting certain requirements and may be revoked based on the respective decision of the Commission. The Commission also sets price cap for the heat supply. On the 14 December 2012 the Commission determined by its decision No. O3-413 a new basic heat rates force components for the period from 1 January 2013 till 31 December 2016.

#### Operational Activity

The Company's generation capacity includes a power plant in Petrašiūnai, 4 district boiler-houses in Kaunas integrated network, 7 regional boiler-houses in Kaunas region, 1 regional boiler-house in Jurbarkas city, 13 isolated networks and 33 local gas burning boiler-houses in Kaunas.

On March 21, 2012 the new bio-fuel powered boiler with condensation economizer with total power of 6.5 MW started to function in AB Kauno Energija Garliava boiler-house, in Kaunas district. The heat produced in this boiler is supplied to the consumers of Garliava borough. This boiler is one of the first bio-fuel powered devices in Lithuania, the construction of which was financed under an Energy Service Company (ESCO) financing model.

Total installed heat generation capacity is 486,65 MW and electricity - 8.75 MW, respectively, out of which 254.8 MW of heat generation and 8 MW of electric capacity are located at the power plant in Petrašiūnai. 27 MW of heat generation capacity is located in Jurbarkas city. The total Company's power generation capacity is 495.4 MW.

In the year 2003 the Company sold a part of the assets of the subdivision Kauno Elektrinė to UAB Kauno Termofikacijos Elektrinė (hereinafter KTE) and committed to purchase at least 80 percent of the annual demand of Kaunas integrated heating network from this company. The contract is valid for 15 years from the signing day. It was determined in this contract that heat purchase price from KTE will not increase in 5 years from the day of contract signing. Starting from 1 December 2008 a new basic heat prices for each 4 years period are being approved by the Commission for KTE and for the Company according to valid legal acts.

The Company received an official note on 13<sup>th</sup> of April, 2012 confirming the decision of Gazprom OAO to sell its shares to the smaller shareholder "Clement Power Venture Inc.", and the provision, that Gazprom OAO as the main shareholder of KTE must ensure that during the term of agreement, i. e. until 30<sup>th</sup> of March, 2018 it will own the main block of shares and adequate (not less than 51 percent) number of votes in General meeting of shareholders, is confirmed in heat purchase agreement signed in 2003 between the Company and KTE, Company's Management Board decided on 10<sup>th</sup> of July, 2012 to approve the selling of all the shares of Kauno Termofikacijos Elektrinė UAB owned by Gazprom OAO to Clement Power Venture Inc., regularizing terms of change of contracts agreements signed with Kauno Termofikacijos Elektrinė UAB and seeking the best for the Company from this selling. On 13 March 2013 KTE adduced to Company an evidence, i.e. an extract from securities account, saying that ownership of the shares of KTE owned by UAB Gazprom is transferred to Clement Power Venture Inc. since 7 March 2013. The changes of Agreement on Investments and of Heat Sales Contract of 31 March 2003 which were signed respectively on 13 August 2012 and 28 September 2012, as well as termination of Contract of Guarantee signed between Company and UAB Gazprom on 13 August 2013 came into force since that date. Following changes of Heat Sales Contract that came into force, Company's obligation to purchase from KTE at least 80 per cent of produced heat, demanded in Kaunas integrated heat supply network was withdrawn. According to changes of Agreement on Investments it was newly agreed and investments objects were intended for a preliminary sum of LTL 350 million as well as detailed schedule of investments implementation for the years 2013 – 2017. Herewith KTE took the obligations from these investments to finance Company's investments in Company's infrastructure in amount of LTL 10 million, which will be fulfilled during the period of 2012 – 2016. KTE obliged to pay 10 per cent forfeit from the value of unfulfilled investments.

In I quarter of 2013 the average number of employees at the Group was 607 (626 employees in 2012). In I quarter of 2013 the average number of employees at the Company was 579 (589 employees in 2012).

#### Strategic Decisions

On 14 of November, 2012 the Kaunas city council approved Company's investment plans for the years 2012 – 2015, according to which investments in amount of LTL 134.137 million are intended to invest into Company's assets during the period of the years 2012 – 2015. The Group and the Company invested LTL 3,492 and 3,441 thousand in the own property during 2012 (during 2012 – LTL 30,620 thousand and 30,661 thousand).

Estimating conditionally high price of the heat bought from KTE, which owns a main Kaunas heat production source, and seeking to contribute to the international liabilities of Lithuania to increase usage of renewable energy sources in heat production, to reduce Lithuania's dependence from imported fossil fuel and to provide the heat energy at a competitive price, the Company initiated reconstruction projects of existing boiler-houses, fitting them to work on wood fuel (wooden chips, waste of deforestation, sawdust).

The Company and Lietuvos Energija, AB are seeking to cooperate developing the project of Petrašiūnai power plant reconstruction. It's planned, after establishing of the joint venture Petrašiūnų energija, to reconstruct existing and to build new equipment, producing heat and electricity by burning bio-fuel in Company's Petrašiūnai heat and power plant. The electric capacity of new and reconstructed equipment will reach 17 MW, and heat capacity – to 50 MW. It's planned to produce approximately 428.000 MWh of heat and approximately 116.100 MWh of electricity with this new and reconstructed equipment and with new condensational economizer per year. Approximately 257,5 thousand tons of wood would be used for the production of this amount of energy. The value of the project can reach LTL 150 million. To implement the project the Company intends to use existing buildings, equipment and infrastructure, and Lietuvos Energija, AB intends to finance the project implementation with own and/or borrowed funds. Environmental impact assessment is already accomplished. On 11 January 2013 the Group and the Company signed a Memorandum of intent with Lietuvos energija, AB in order to continue a project of development of Petrašiūnai cogeneration power plant reconstruction.

In the end of 2011 the Company applied to Lithuanian Environmental Investment Fund (hereinafter – LEIF) for the partial financing of the projects “Reconstruction of Noreikiškės boiler-house equipping it with bio-fuel burned 4 MW capacity water boiler” (value of the project amounts to LTL 5,3 million, planned to produce heat amount – 16500 MWh per year), “Reconstruction of Ežerėlis boiler-house equipping it with bio-fuel burned 3,5 MW capacity water boiler” (value of the project amounts to LTL 4,6 million, planned to produce heat amount – 6710 MWh per year) and “Reconstruction of Pergalė boiler-house equipping it with condensational smoke economizer” (value of the project amounts to LTL 2,3 million, the sum of support asked is LTL 0,6 million). The projects of reconstruction of Noreikiškės and Ežerėlis boiler-houses are planned to implement in 2013. Implementation of these projects would not only contribute to reduction of Greenhouse Gas Emission but also would have an influence on heat price reduction to the consumers. Further progress of the projects is described in note 13.

The Company actively implements preparatory works of Šilkas and Inkaras boiler-houses reconstructions, fitting existing gas burned boilers to work on bio-fuel: a technical documentation and a territory planning documents are prepared, contracts are being signed. It's planned, that these projects will be implemented in the years 2013 – 2014 and it will probably have an influence on heat price reduction to the consumers.

It's planned in Šilkas boiler-house to fit a water boiler DKVR 10/13 to work on bio-fuel in 2013. The heat, produced with this boiler would be supplied in Kaunas integrated heat supply network. The heat capacity of boiler with economizer will be 9 MW. Prospective value of the project is LTL 5.2 million.

It's planned to equip Inkaras boiler-house with two new bio-fuel burned water boilers in complement with furnaces and condensational economizer in 2013. The heat capacity of boilers will be 8 MW each and of condensational economizer - 4 MW. Prospective value of the project is LTL 12 million.

Currently the Company has applications from 10 potential independent heat producers (the total power capacity – 260 MW) regarding the connection to the Company's integrated heat supply network. On 7 March 2012 the project of implementing rules of procurement order of centrally supplied heat has been presented to the potential independent heat producers in Company. The document has been also presented to the National Control Commission for Prices and Energy. This is the first theoretical document of this kind not only in Lithuania, but also in Europe. Unambiguous regulation would allow competition in heat production sector and for price reduction of heat supplied to the end users.

On 12 October 2012 the heat purchase agreement between the Company and UAB GECO Kaunas has been signed. The new UAB GECO Kaunas boiler-house will produce up to 140 MWh heat per year. Its project capacity reaches up to 20 MW. The amount of heat produced by boiler-house will reach up to 10 percent of whole Kaunas heat demand. Agreement is valid until 31 December 2015 and carries the possibility of to extend the term.

On 14 December 2012 the heat purchase agreement between the Company and UAB Lorizon Energy has been signed. This company built a 10 MW capacity boiler-house, which will supply approximately 5 percent of heat, consumed in Kaunas integrated network. Agreement is valid until 31 December 2015 and carries the possibility of to extend the term.

## **2. Accounting principles**

### **2.1. Adoption of new and revised International Financial Reporting Standards**

The following amendments to the existing standards issued by the International Accounting Standards Board and interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current period.

### **2.2. Statement of Compliance**

The financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and interpretations of them. The standards are issued by the International Accounting Standards Board (IASB) and the interpretations by the International Financial Reporting Interpretations Committee (IFRIC).

### **2.3. Basis of the preparation of financial statements**

The financial statements have been prepared on a cost basis, except for certain financial instruments, which are stated at fair value, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The financial year of the Company and other Group companies coincides with the calendar year.

Items included in the financial statements of the Group and the Company are measured using the currency of the primary economic environment in which they operate (the 'functional currency'). The amounts shown in these financial statements are measured and presented in the local currency of the Republic of Lithuania, litas (LTL) which is a functional and presentation currency of the Company and its subsidiary and all values are rounded to the nearest thousands, except when otherwise indicated.

Starting from 2 February 2002, Lithuanian litas is pegged to EUR at the rate of 3.4528 LTL for 1 EUR, and the exchange rates in relation to other currencies are set daily by the Bank of Lithuania.

### **2.4. Principles of consolidation**

#### Principles of consolidation

The consolidated financial statements of the Group include AB Kauno Energija and its subsidiary. The financial statements of the subsidiary are prepared for the same reporting period as the Company. Consolidated financial statements are prepared on the basis of the same accounting principles applied to similar transactions and other events under similar circumstances.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Subsidiary is the company which is directly or indirectly controlled by the parent company. The control is normally evidenced when the Group owns, either directly or indirectly, more than 50 percent of the voting rights of a company's share capital or otherwise has power to govern the financial and operating policies of an enterprise so as to benefit from its activities.

#### Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries.

Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognized in other comprehensive income and accumulated in equity, the amounts previously recognized in other comprehensive income and accumulated in equity are accounted for as if the Company had directly disposed of the relevant assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

## **2.5. Investments in subsidiaries**

Investments in subsidiaries in the Company's Statements of Financial Position are recognized at cost. The dividend income from the investment is recognized in the profit (loss).

The requirements of IAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in a subsidiary. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

## **2.6. Intangible assets**

### Intangible assets acquired separately

Intangible assets acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

### Derecognition of intangible assets

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in profit or loss when the asset is derecognized.

### Licenses

Amounts paid for licenses are capitalised and then amortised over useful life (3 - 4 years).

### Software

The costs of acquisition of new software are capitalised and treated as an intangible asset if these costs are not an integral part of the related hardware. Software is amortised over a period not exceeding 3 years.

Costs incurred in order to restore or maintain the future economic benefits of performance of the existing software systems are recognised as an expense for the period when the restoration or maintenance work is carried out.

## 2.7. Accounting for emission rights

The Group and the Company apply a 'net liability' approach in accounting for the emission rights received. It records the emission allowances granted to it at nominal amount, as permitted by IAS 20 Accounting for Government Grants and Disclosure of Government Assistance.

Liabilities for emissions are recognised only as emissions are made (i.e. provisions are never made on the basis of expected future emissions) and only when the reporting entity has made emissions in excess of the rights held.

When applying the net liability approach, the Group and the Company have chosen a system that measures deficits on the basis of an annual allocation of emission rights.

The outright sale of an emission right is recorded as a sale at the value of consideration received. Any difference between the fair value of the consideration received and its carrying amount is recorded as a gain or loss, irrespective of whether this creates an actual or an expected deficit of the allowances held. When a sale creates an actual deficit an additional liability is recognised with a charge to the profit or loss.

## 2.8. Property, plant and equipment

Property, plant and equipment are stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of such property, plant and equipment when that cost is incurred if the asset recognition criteria are met.

Properties in the course of construction for production, supply or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognized impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalized in accordance with the Group's and the Company's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognized so as to write off the cost of assets (other than freehold land and properties under construction) less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

The useful lives are reviewed annually to ensure that the period of depreciation is consistent with the expected pattern of economic benefits from the items in property, plant and equipment. Depreciation periods were revised as of 1 September 2008, as further described in Note 2.25.

Depreciation is computed on a straight-line basis over the following estimated useful lives:

|                          | <b>Years</b> |
|--------------------------|--------------|
| Buildings                | 7 - 50       |
| Structures and machinery | 5 - 70       |
| Vehicles                 | 3 - 10       |
| Equipment and tools      | 2 - 20       |

Freehold land is not depreciated.

The Group and the Company capitalizes property, plant and equipment purchases with useful life over one year and an acquisition cost above LTL 500.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of comprehensive income in the year the asset is derecognized.

Subsequent repair costs are included in the asset's carrying amount, only when it is probable that future economic benefits associated with the item will flow to the Group and the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are recognized in profit or loss in the period in which they are incurred.

Lease hold improvement expenses related to property under rental and/or operating lease agreements which prolong the estimated useful life of the asset are capitalized and depreciated during the term of rental and/or operating lease agreements.

Construction-in-progress is stated at cost. This includes the cost of construction, plant and equipment and other directly attributable costs. Construction-in-progress is not depreciated until the relevant assets are completed and put into operation.

## **2.9. Impairment of property, plant and equipment and intangible assets excluding goodwill**

At each statement of financial position date, the Group and the Company reviews the carrying amounts of its property, plant and equipment and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group and the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, Group's and Company's assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

## **2.10. Financial assets**

Financial assets are classified as either financial assets at fair value through profit or loss, loans and receivables or available-for-sale financial assets, as appropriate. All purchases and sales of financial assets are recognised on the trade date. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

#### Effective interest rate method

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Income is recognized on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

#### Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group and the Company manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's and the Company's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the 'other gains and losses' line item in the statement of comprehensive income.

#### Available-for-sale financial assets (AFS financial assets)

Available-for-sale financial assets are non-derivatives that are either designated as AFS or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

Listed redeemable notes held by the Group and the Company that are traded in an active market are classified as available-for-sale and are stated at fair value. The Group and the Company also has investments in unlisted shares that are not traded in an active market but that are also classified as available-for-sale financial assets and stated at fair value (because the directors consider that fair value can be reliably measured). Gains and losses arising from changes in fair value are recognized in other comprehensive income and accumulated in the investments revaluation reserve, with the exception of impairment losses, interest calculated using the effective interest method, and foreign exchange gains and losses on monetary assets, which are recognized in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

Dividends on available-for-sale equity instruments are recognized in profit or loss when the Group's and the Company's right to receive the dividends is established.

The fair value of available-for-sale monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period. The foreign exchange gains and losses that are recognized in profit or loss are determined based on the amortized cost of the monetary asset. Other foreign exchange gains and losses are recognized in other comprehensive income.

#### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Gains or losses are recognized in profit or loss when the asset value decreases or it is amortized.

Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

#### Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For listed and unlisted equity investments classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, including redeemable notes classified as AFS and finance lease receivables, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becomes probable that the borrower will enter bankruptcy or financial re-organization; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's and the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 30 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

#### Derecognition of financial assets

The Group and the Company derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group and the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group and the Company recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group and the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group and the Company continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

## **2.11. Derivative financial instruments**

The Group and the Company uses derivative financial instruments such as interest rate swaps to hedge its interest rate risks. Such derivative financial Instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives during the year are taken directly to the profit (loss) for the period if they do not qualify for hedge accounting.

The fair value of interest rate swap contracts is determined by the reference to market values for similar instruments.

## **2.12. Inventories**

Inventories are stated at the lower of cost or net realizable value. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale. Costs of inventories are determined on a first-in, first-out (FIFO) basis.

The cost of inventories is net of volume discounts and rebates received from suppliers during the reporting period but applicable to the inventories still held in stock.

## **2.13. Provisions**

Provisions are recognized when the Group and the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group and the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

## **2.14. Cash and cash equivalents**

Cash includes cash on hand, cash at banks and cash in transit. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less and that are subject to an insignificant risk of change in value.

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, cash with banks, cash in transit, deposits held at call with banks, and other short-term highly liquid investments.

## **2.15. Employee benefits**

Contributions to defined contribution retirement benefit plans are recognized as an expense when employees have rendered service entitling them to the contributions.

The retirement benefit obligation recognized in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognized actuarial gains and losses and unrecognized past service cost, and as reduced by the fair value of plan assets. Any asset resulting from this calculation is limited to

unrecognized actuarial losses and past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

## **2.16. Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

## **2.17. Financial liabilities and equity instruments**

### Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement and the definitions of a financial liability and an equity instrument.

### Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group and the Company are recognized at the proceeds received, net of direct issue costs.

### Financial liabilities

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

### Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL.

### Other financial liabilities

Other financial liabilities (including borrowings) are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

### Derecognition of financial liabilities

The Group and the Company derecognises financial liabilities when, and only when, the Group's and the Company's obligations are discharged, cancelled or they expire.

## **2.18. Leasing**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

### The Group and the Company as lessor

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's and the Company's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's and the Company's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

#### The Group and the Company as lessee

Assets held under finance leases are initially recognised as assets of the Group and the Company at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's and the Company's general policy on borrowing costs. Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

#### **2.19. Grants (deferred income)**

Government grants are not recognised until there is reasonable assurance that the Group and the Company will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group and the Company recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group and the Company should purchase, construct or otherwise acquire non-current assets are recognised as deferred revenue in the statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Grants received in the form of non-current assets or intended for the purchase, construction or other acquisition of non-current assets are considered as asset-related grants. Assets received free of charge are also allocated to this group of grants. The amount of the grants related to assets is recognized as deferred income and is credited to profit or loss in equal annual amounts over the expected useful life of related asset. In the statement of comprehensive income, a relevant expense account is reduced by the amount of grant amortisation.

Assets received free of charge are initially recognised at fair value.

Grants received as a compensation for the expenses or unearned income of the current or previous reporting period, also, all the grants, which are not grants related to assets, are considered as grants related to income. The income-related grants are recognised as used in parts to the extent of the expenses incurred during the reporting period or unearned income to be compensated by that grant.

The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

The balance of unutilised grants is shown in the caption Grants (deferred income) in the balance sheet.

## **2.20. Income tax**

Income tax expense represents the sum of the tax currently payable and deferred tax.

## **2.21. Basic and diluted earnings per share**

Basic earnings per share are calculated by dividing the net profit attributable to the shareholders by the weighted average of ordinary registered shares issued. There are no instructions reducing earnings per share, there is no difference between the basic and diluted earnings per share.

## **2.22. Revenue recognition**

Revenue is recognised when it is probable that the economic benefits associated with the transaction will flow to the enterprise and the amount of the revenue can be measured reliably. Sales are recognised net of VAT and discounts.

Revenue from sales of heat energy is recognised based on the bills issued to residential and other customers for heating and heating-up of cold water. The customers are billed monthly according to the readings of heat meters.

Revenue from the sale of goods is recognised when all the following conditions are satisfied:

- the Group and the Company has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group and the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group and the Company; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Late payment interest income from overdue receivables is recognised upon receipt.

Dividend revenue from investments is recognised when the shareholder's right to receive payment has been established (provided that it is probable that the economic benefits will flow to the Group and the Company and the amount of revenue can be measured reliably).

Interest revenue is recognised when it is probable that the economic benefits will flow to the Group and the Company and the amount of revenue can be measured reliably. Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

The Group's and the Company's policy for recognition of revenue from operating leases is described in Note 2.18 below.

## **2.23. Expense recognition**

Expenses are recognised on the basis of accrual and revenue and expense matching principles in the reporting period when the income related to these expenses was earned, irrespective of the time the money was spent. In those cases when the costs incurred cannot be directly attributed to the specific income and they will not bring income during the future periods, they are expensed as incurred.

The amount of expenses is usually accounted for as the amount paid or due, excluding VAT. In those cases when a long period of payment is established and the interest is not distinguished, the amount of expenses is estimated by discounting the amount of payment using the market interest rate.

## 2.24. Foreign currencies

In preparing the financial statements of the individual entities of the Group, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

The presentation currency is Litas (LTL). All transactions had functional currency other than LTL translated into LTL at the official Bank of Lithuania exchange rate on the date of the transaction, which approximates the prevailing market rates. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Gains and losses arising on exchange are included in profit or loss for the period.

The applicable rates used for principal currencies were as follows:

| As of 31 March 2013 |             | As of 31 December 2012 |              |
|---------------------|-------------|------------------------|--------------|
| 1 EUR               | = 3,4528 Lt | 1 EUR                  | = 3,4528 LTL |
| 1 USD               | = 2,6984 Lt | 1 USD                  | = 2,6060 LTL |
| 1 GBP               | = 4,0906 Lt | 1 GBP                  | = 4,2015 LTL |

Exchange differences are recognised in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- exchange differences on transactions entered into in order to hedge certain foreign currency risks; and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on disposal or partial disposal of the net investment.

## 2.25. Use of estimates in the preparation of financial statements

The preparation of financial statements requires the management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingencies, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

### Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the Statements of Financial Position date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

### *Property, plant and equipment – useful life*

The key assumptions concerning determination the useful life of property, plant and equipment are as follows: expected usage of the asset, expected physical wear and tear, technical or commercial obsolescence arising from changes or improvements in the services, legal or similar limits on the use of the asset, such as the expiry dates of related leases.

The Group and the Company has considered the actual useful life of property, plant and equipment and increased a depreciation rate for the heating connections from 20 years to 30 years and for the heating stations from 10 years to 15 years respectively starting from 1 September 2008.

*Realisable value of inventory*

Starting from 2011, the management of the Company forms a 100 per cent adjustment to the net realizable value for inventory bought more than one year ago.

*Carrying value of non-current assets received as a contribution in kind*

In 2009 a new shares issue was paid by contribution in-kind - manifolds situated in Kaunas city: i.e. market value of assets determined upon their transfer by local qualified valuers using depreciated replacement costs method amounted to LTL 136 million.

In 2010 a new shares issue was paid by contribution in-kind: i.e. building – boiler-house situated in Kaunas city and by networks system situated in Jurbarkas city. Market value of assets estimated upon their transfer by local qualified valuers by using depreciated replacement costs method amounted to LTL 0.616 million.

Following decision of 12 August 2012 of the Commission stated in 2012, the Company performed an additional valuations of contribution in-kind, i. e. manifolds in 2012. It's emphasized in the valuation report, that in this particular case a value of manifolds calculated in the method of income is not correct market value of the asset and the value of the manifolds, determined under the replacement cost method, is considered to be the market value of the assets.

As of 31 March 2013 carrying value of total contribution in-kind amounted to LTL 129,902 thousand, including the manifolds, which amounted to LTL 129,299 thousand (31 December 2012: LTL 130,395 thousand and LTL 129,785 thousand respectively).

*Allowances for accounts receivable*

The Group and the Company makes allowances for doubtful accounts receivable. Significant judgment is used to estimate doubtful accounts. In estimating doubtful accounts historical and anticipated customer performance are considered. Changes in the economy, industry, or specific customer conditions may require adjustments to the allowance for doubtful accounts recorded in the financial statements.

*Deferred Tax Asset*

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Further details are contained in Note 21.

*Litigations*

The Group and the Company reviews all legal cases for the end of the reporting period and disclose all relevant information in the Note 24.

## **2.26. Contingencies**

Contingent liabilities are not recognised in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

## **2.27. Subsequent events**

Post-balance sheet events that provide additional information about the Group's and the Company's position at the balance sheet date (adjusting events) are reflected in the financial statements. Post-balance sheet events that are not adjusting events are disclosed in the notes when material.

## **2.28. Offsetting and comparative figures**

When preparing the financial statements, assets and liabilities, as well as revenue and expenses are not set off, except the cases when certain IFRS specifically require such set-off.

## **2.29. Segments**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors that makes strategic decisions.

The activities of the Group and the Company are organised in one operating segment therefore further information on segments has not been disclosed in these financial statements

### 3. Intangible assets

Amortisation expenses of intangible assets are included in the operating expenses in the statement of comprehensive income.

As of 31 March 2013 part of the non-current intangible assets of the Group with the acquisition cost of LTL 4,771 thousand (LTL 4,909 thousand As of 31 December 2012) and the Company – LTL 4,720 thousand (LTL 4,858 thousand As of 31 December 2012) were fully amortised but were still in active use.

### 4. Property, plant and equipment

The depreciation charge of the Group's and Company's property, plant and equipment for the quarter ended as of 31 March 2013 amounts to LTL 4,236 thousand and LTL 4,291 thousand, respectively (2012: LTL 18,178 thousand and LTL 18,099 thousand respectively). The amounts of LTL 4,219 thousand and LTL 4,274 thousand (2012: LTL 16,844 thousand and LTL 16,764 thousand respectively) were included into operating expenses (under depreciation and amortisation and other expenses lines) in the Group's and the Company's statement of comprehensive income. The remaining amounts were included into other activity expenses.

As of 31 March 2013 part of the property, plant and equipment of the Group with acquisition cost of LTL 107,069 thousand (LTL 105,177 thousand as of 31 December 2012) and the Company – LTL 106,692 thousand were fully depreciated (LTL 104,726 thousand As of 31 December 2012), but were still in active use.

As of 31 March 2013 and as of 31 December 2012 the major part of the Group's and Company's construction in progress consisted of heat supply networks reconstruction and repair works.

As of 31 March 2013 the sum of the Group's and the Company's contractual commitments for the acquisition of property, plant and equipment amounted to LTL 5,979 thousand (As of 31 December 2012 – LTL 2,020 thousand).

As of 31 March 2013 property, plant and equipment of the Group and the Company with the net book value of LTL 79,728 thousand (LTL 80,886 thousand As of 31 December 2012) was pledged to banks as a collateral for loans (Note 11).

The sum of Group's and Company's capitalized interest was equal to LTL 29 thousand in I quarter 2013 (2012: LTL 295 thousand). The capitalization rate varied from 1.67 percent to 1.78 percent in I quarter 2013 (in 2012 – from 1.99 percent to 2.8 percent).

As of 31 March 2013 the Group and the Company accounted for assets, not yet ready for use, amounting to LTL 717 thousand in the category Equipment and tools (LTL 917 thousand As of 31 December 2012).

### 5. Non-current accounts receivable

|  | Group                     |                              | Company                   |                              |
|--|---------------------------|------------------------------|---------------------------|------------------------------|
|  | As of 31<br>March<br>2013 | As of 31<br>December<br>2012 | As of 31<br>March<br>2013 | As of 31<br>December<br>2012 |
| Long-term loans granted to the Company's employees | 45                        | 45                           | 46                        | 45                           |

Long-term loans granted to the employees of the Company for the period from 1997 to 2023 are non-interest bearing. These loans are accounted for at discounted value as of 31 March 2013 and as of 31 December 2012 using 3.47 percent interest rate. In 2012 effect of reversed discounting amounted to LTL 9 thousand. The

reversal of discounting is accounted in the change of depreciation of realisable value of receivables line in the Group's and Company's statement of comprehensive income

As of 31 March 2013 and as of 31 December 2012 the repayment term of non-current accounts receivable is not yet due and valuation allowance is not determined.

#### 6. Other financial assets

|  | Group                  |                           | Company                |                           |
|--|------------------------|---------------------------|------------------------|---------------------------|
|  | As of 31<br>March 2013 | As of 31<br>December 2012 | As of 31<br>March 2013 | As of 31<br>December 2012 |
| <i>Available-for-sale financial assets</i> |                        |                           |                        |                           |
| Fair value of shares                       | 433                    | 433                       | 433                    | 433                       |

Valuators performed the valuation of the assets of UAB Šilumos Ūkio Servisas, less than 19 percent of shares of which is owned by the Company, and determined a market value of the shares. As of 31 March 2013 a profit of change in fair value of shares was LTL 338 thousand (as of the 31<sup>st</sup> of December, 2012 the impairment loss was LTL 338 thousand). Impairment loss is accounted in the Group's and the Company's profit (loss).

#### 7. Inventories

|  | Group                  |                           | Company                |                           |
|--|------------------------|---------------------------|------------------------|---------------------------|
|  | As of 31<br>March 2013 | As of 31<br>December 2012 | As of 31<br>March 2013 | As of 31<br>December 2012 |
| Technological fuel   | 3,424                  | 3,461                     | 3,424                  | 3,461                     |
| Spare parts  | 1,262                  | 1,292                     | 1,262                  | 1,292                     |
| Materials  | 1,246                  | 1,347                     | 1,216                  | 1,256                     |
|  | 5,932                  | 6,100                     | 5,902                  | 6,009                     |
| Less: write-down to net realisable value of inventory at the end of the period | (1,965)                | (1,854)                   | (1,965)                | (1,854)                   |
| Carrying amount of inventories   | 3,967                  | 4,246                     | 3,937                  | 4,155                     |

As of 31 March 2013 Group's and Company's amounted to LTL 1,965 thousand (as of 31 December 2012 - LTL 1,854 thousand) write-down to net realisable value of inventories. Changes in the Write-down to net realisable value of inventories for the 2013 and for the year 2012 were included into change in write-down to net realisable value of inventories caption in the Group's and the Company's statement of comprehensive income.

#### 8. Current accounts receivable

|  | Group                     |                              | Company                   |                              |
|--|---------------------------|------------------------------|---------------------------|------------------------------|
|  | As of 31<br>March<br>2013 | As of 31<br>December<br>2012 | As of 31<br>March<br>2013 | As of 31<br>December<br>2012 |
| Trade receivables, gross                 | 141,101                   | 129,841                      | 141,155                   | 129,858                      |
| Less: impairment of doubtful receivables | (51,793)                  | (47,755)                     | (51,962)                  | (47,877)                     |
|  | 89,308                    | 82,086                       | 89,193                    | 81,981                       |

Of 31 March 2013 Group's and Company's receivables as include the factored receivables amounting to LTL 6,227 thousand, under the agreement with UAB Swedbank Lizingas, described in Note 11.

Change in impairment of doubtful receivables in 2013 and 2012 is included into the caption of write-offs and change in allowance for accounts receivables in the Group's and the Company's statements of comprehensive income.

Movements in the allowance for impairment of the Group's and the Company's receivables were as follows:

|                                       | <b>Group<br/>Impairment<br/>loss</b> | <b>Company<br/>Impairment<br/>loss</b> |
|---------------------------------------|--------------------------------------|--|
| <b>Balance as of 31 December 2011</b> | <b>43,315</b>                        | <b>43,315</b>                          |
| Additional allowance formed           | 5,827                                | 5,949                                  |
| Write-off                             | (1,387)                              | (1,387)                                |
| <b>Balance as of 31 December 2012</b> | <b>47,755</b>                        | <b>47,877</b>                          |
| Additional allowance formed           | 4,038                                | 4,085                                  |
| <b>Balance as of 31 March 2013</b>    | <b>51,793</b>                        | <b>51,962</b>                          |

In 2012 the Group and the Company wrote off LTL 1,387 thousand of bad debts. In I quarter 2013 the Group and the Company also recovered LTL 4 thousand (2012 - LTL 17 thousand) of doubtful receivables, which were written off in the previous periods.

The ageing analysis of the Group's net value of trade receivables as of 31 March 2013 and 31 December 2012 is as follows:

|             | <b>Trade receivables neither<br/>past due nor impaired</b> | <b>Trade receivables past due</b> |                          |                           |                           |                               | <b>Total</b> |
|-------------|--|-----------------------------------|--------------------------|---------------------------|---------------------------|-------------------------------|--------------|
|             |  | <b>Less than<br/>60 days</b>      | <b>60 - 150<br/>days</b> | <b>151 - 240<br/>days</b> | <b>241 - 360<br/>days</b> | <b>More than<br/>360 days</b> |              |
| <b>2013</b> | 57,690   | 13,044                            | 3,634                    | 571                       | 367                       | 14,002                        | 89,308       |
| <b>2012</b> | 61,676   | 6,026                             | 1,243                    | 712                       | 1,594                     | 10,835                        | 82,086       |

The ageing analysis of the Company's net value of trade receivables as of 31 March 2013 and 31 December 2012 is as follows:

|             | <b>Trade receivables neither<br/>past due nor impaired</b> | <b>Trade receivables past due</b> |                          |                           |                           |                               | <b>Total</b> |
|-------------|--|-----------------------------------|--------------------------|---------------------------|---------------------------|-------------------------------|--------------|
|             |  | <b>Less than<br/>60 days</b>      | <b>60 - 150<br/>days</b> | <b>151 - 240<br/>days</b> | <b>241 - 360<br/>days</b> | <b>More than<br/>360 days</b> |              |
| <b>2013</b> | 57,575   | 13,044                            | 3,634                    | 571                       | 367                       | 14,002                        | 89,193       |
| <b>2012</b> | 61,571   | 6,026                             | 1,243                    | 712                       | 1,594                     | 10,835                        | 81,981       |

Trade receivables are non-interest bearing and the payment terms are usually 30 days or agreed individually.

Other Group's and the Company's receivables consisted of:

|   | <b>Group</b>                   |                                   | <b>Company</b>                 |                                   |
|---|--------------------------------|-----------------------------------|--------------------------------|-----------------------------------|
|   | <b>As of 31<br/>March 2013</b> | <b>As of 31<br/>December 2012</b> | <b>As of 31<br/>March 2013</b> | <b>As of 31<br/>December 2012</b> |
| Taxes   | 4,263                          | 3,535                             | 4,263                          | 3,535                             |
| Other receivables                                 | 8,109                          | 3,126                             | 8,323                          | 3,318                             |
| Less: value impairment<br>of doubtful receivables | (993)                          | (567)                             | (1,207)                        | (759)                             |
|   | <b>11,379</b>                  | <b>6,094</b>                      | <b>11,379</b>                  | <b>6,094</b>                      |

Movements in the allowance for impairment of the Group's and the Company's other receivables were as follows:

|                                       | <b>Group<br/>Impairment loss</b> | <b>Company<br/>Impairment loss</b> |
|---------------------------------------|----------------------------------|------------------------------------|
| <b>Balance as of 31 December 2011</b> | <b>481</b>                       | <b>481</b>                         |
| Additional allowance formed           | 113                              | 305                                |
| Write-off                             | (27)                             | (27)                               |
| <b>Balance as of 31 December 2012</b> | <b>567</b>                       | <b>759</b>                         |
| Additional allowance formed           | 426                              | 448                                |
| <b>Balance as of 31 March 2013</b>    | <b>993</b>                       | <b>1,207</b>                       |

As of 31 March 2013 and 31 December 2012 the major part of the Group's and the Company's other receivables consisted of compensations from municipalities for low income families, receivables from sold inventories (metals, heating equipment) and services supplied (maintenance of manifolds and similar services).

The ageing analysis of the Group's net value of other receivables (excluding taxes) as of 31 March 2013 and 31 December 2012 is as follows:

|      | Other receivables neither<br>past due nor impaired | Other receivables past due but |                  |                   |                   |                       | Total |
|------|--|--------------------------------|------------------|-------------------|-------------------|-----------------------|-------|
|      |  | Less than<br>60 days           | 60 - 150<br>days | 151 - 240<br>days | 241 - 360<br>days | More than 360<br>days |       |
| 2013 | 4,532  | 2,554                          | 16               | 13                | 1                 | -                     | 7,116 |
| 2012 | 2,451  | 44                             | 51               | 11                | 2                 | -                     | 2,559 |

The ageing analysis of the Company's net value of other receivables (excluding taxes) as of 31 March 2013 and 31 December 2012 is as follows:

|      | Other receivables neither<br>past due nor impaired | Other receivables past due but |                  |                   |                   |                       | Total |
|------|--|--------------------------------|------------------|-------------------|-------------------|-----------------------|-------|
|      |  | Less than<br>60 days           | 60 - 150<br>days | 151 - 240<br>days | 241 - 360<br>days | More than 360<br>days |       |
| 2013 | 4,532  | 2,554                          | 16               | 13                | 1                 | -                     | 7,116 |
| 2012 | 2,451  | 44                             | 51               | 11                | 2                 | -                     | 2,559 |

The Group's and the Company's other receivables are non-interest bearing and the payment terms are usually 30 – 45 days.

According to the management opinion, there are no indications as of the reporting date that the debtors will not meet their payment obligations regarding trade receivables and other receivables that are neither impaired nor past due.

## 9. Cash and cash equivalents

|                 | Group                  |                           | Company                |                           |
|-----------------|------------------------|---------------------------|------------------------|---------------------------|
|                 | As of 31<br>March 2013 | As of 31<br>December 2012 | As of 31<br>March 2013 | As of 31<br>December 2012 |
| Cash in transit | 4,483                  | 4,181                     | 4,483                  | 4,181                     |
| Cash at bank    | 2,375                  | 1,141                     | 2,276                  | 1,117                     |
| Cash on hand    | 10                     | 10                        | 9                      | 10                        |
|                 | <u>6,868</u>           | <u>5,332</u>              | <u>6,768</u>           | <u>5,308</u>              |

The Group's and the Company's accounts in banks amounting to LTL 1,809 thousand as of 31 March 2013 (31 December 2012 – LTL 459 thousand) are pledged as collateral for the loans (Note 11).

## 10. Reserves

### Legal and other reserves

A legal reserve is a compulsory reserve under Lithuanian legislation. Annual transfers of not less than 5 percent of net profit calculated in accordance with IFRS are compulsory until the reserve reaches 10 percent of the share capital. The legal reserve cannot be distributed as dividends but can be used to cover any future losses.

On 29 April 2011 the Company transferred LTL 187 thousand from retained earnings to legal reserve and LTL 3,468 thousand to other reserves by the decision of shareholders. Reserve for investments was formed. The Company reversed reserve by the decision of shareholders of 30<sup>th</sup> of April, 2012.

The Company allocated LTL 672 thousand from profit brought forward to legal reserve by the decision of shareholders of 30<sup>th</sup> of April, 2012 and LTL 2,584 thousand from profit brought forward to other reserves. The reserve has been formed for investments.

## 11. Borrowings

|  | Group                  |                           | Company                |                           |
|--|------------------------|---------------------------|------------------------|---------------------------|
|  | As of 31<br>March 2013 | As of 31<br>December 2012 | As of 31<br>March 2013 | As of 31<br>December 2012 |
| <b>Non-current borrowings</b>  | 34,005                 | 33,746                    | 34,005                 | 33,746                    |
| Current portion of non-current borrowings (except leasing which is disclosed in Note 12) | 6,435                  | 8,489                     | 6,435                  | 8,489                     |
| Current borrowings (including credit line)   | 24,899                 | 24,563                    | 24,899                 | 24,563                    |
| Factoring with recourse agreement  | 6,227                  | 3,068                     | 6,227                  | 3,068                     |
| <b>Current borrowings</b>  | 37,561                 | 36,120                    | 37,561                 | 36,120                    |
|  | 71,566                 | 69,866                    | 71,566                 | 69,866                    |

Terms of repayment of non-current borrowings are as follows:

|      | Group                  |                           | Company                |                           |
|------|------------------------|---------------------------|------------------------|---------------------------|
|      | As of 31<br>March 2013 | As of 31<br>December 2012 | As of 31<br>March 2013 | As of 31<br>December 2012 |
| 2013 | 6,435                  | 8,489                     | 6,435                  | 8,489                     |
| 2014 | 8,761                  | 8,761                     | 8,761                  | 8,761                     |
| 2015 | 5,908                  | 5,908                     | 5,908                  | 5,908                     |
| 2016 | 4,316                  | 4,188                     | 4,316                  | 4,188                     |
| 2017 | 2,446                  | 2,439                     | 2,446                  | 2,439                     |
| 2018 | 2,067                  | 1,944                     | 2,067                  | 1,944                     |
| 2019 | 913                    | 913                       | 913                    | 913                       |
| 2020 | 640                    | 640                       | 640                    | 640                       |
| 2021 | 640                    | 639                       | 640                    | 639                       |
| 2022 | 640                    | 640                       | 640                    | 640                       |
| 2023 | 639                    | 639                       | 639                    | 639                       |
| 2024 | 640                    | 640                       | 640                    | 640                       |
| 2025 | 640                    | 640                       | 640                    | 640                       |
| 2026 | 640                    | 640                       | 640                    | 640                       |
| 2027 | 639                    | 639                       | 639                    | 639                       |
| 2028 | 640                    | 640                       | 640                    | 640                       |
| 2029 | 639                    | 639                       | 639                    | 639                       |
| 2030 | 640                    | 640                       | 640                    | 640                       |
| 2031 | 639                    | 639                       | 639                    | 639                       |
| 2032 | 640                    | 640                       | 640                    | 640                       |
| 2033 | 639                    | 639                       | 639                    | 639                       |
| 2034 | 639                    | 639                       | 639                    | 639                       |
|      | 40,440                 | 42,235                    | 40,440                 | 42,235                    |

Average of interest rates (in percent) of borrowings weighted outstanding at the year-end were as follows:

|                        | Group                  |                           | Company                |                           |
|------------------------|------------------------|---------------------------|------------------------|---------------------------|
|                        | As of 31<br>March 2013 | As of 31<br>December 2012 | As of 31<br>March 2013 | As of 31<br>December 2012 |
| Current borrowings     | 0,54                   | 1,01                      | 0,54                   | 1,01                      |
| Non-current borrowings | 2,72                   | 2,78                      | 2,72                   | 2,78                      |

Borrowings at the end of the year in national and foreign currencies were as follows:

| Currency of the loan: | Group                  |                           | Company                |                           |
|-----------------------|------------------------|---------------------------|------------------------|---------------------------|
|                       | As of 31<br>March 2013 | As of 31<br>December 2012 | As of 31<br>March 2013 | As of 31<br>December 2012 |
| EUR                   | 38,179                 | 39,765                    | 38,179                 | 39,765                    |
| LTL                   | 27,160                 | 27,033                    | 27,160                 | 27,033                    |
|                       | 65,339                 | 66,798                    | 65,339                 | 66,798                    |

Detailed information on loans As of 31 March 2013:

| Credit institution                             | Date of contract | Currency | Currency sum, thousand | Sum LTL thousand | Interest rate                     | Term of maturity | Balance as of 31.03.2013 LTL thousand | A part of 2013, LTL thousand |
|--|------------------|----------|------------------------|------------------|-----------------------------------|------------------|---------------------------------------|------------------------------|
| 1. AB SEB Bank                                 | 2005.08.23       | EUR      | 8,776                  | 30,300           | 6 month EUR LIBOR + 1,9 percent   | 2014.12.31       | 4,375                                 | 1,875                        |
| 2. Nordea Bank Finland Plc. Lithuanian branch  | 2006.12.01       | LTL      | 6,090                  | 6,090            | 3 month VILIBOR + 0,45 percent    | 2015.12.31       | 2,261                                 | 629                          |
| 3. AB SEB Bank                                 | 2006.12.21       | EUR      | 2,059                  | 7,108            | 6 month EUR LIBOR + 0,4 percent   | 2016.11.30       | 1,187                                 | 296                          |
| 4. AB DNB bankas                               | 2007.11.14       | EUR      | 576                    | 1,989            | 12 month EUR LIBOR + 0,59 percent | 2016.12.31       | 932                                   | 186                          |
| 5. Danske Bank A/S Lithuania branch            | 2008.07.31       | EUR      | 984                    | 3,398            | 3 month EURIBOR + 0,385 percent   | 2018.12.31       | 1,998                                 | 263                          |
| 6. Danske Bank A/S Lithuania branch            | 2008.07.31       | EUR      | 1,158                  | 4,000            | 3 month EURIBOR + 0,7 percent     | 2017.09.30       | 2,406                                 | 450                          |
| 7. Swedbank, AB                                | 2009.12.02       | EUR      | 3,815                  | 9,819            | 6 month EURIBOR + 3,5 percent     | 2016.12.02       | 4,138                                 | 902                          |
| 8. Lithuanian Ministry of Finance              | 2010.04.09       | EUR      | 2,410                  | 8,323            | 3,948 percent                     | 2034.03.15       | 6,139                                 | -                            |
| 9. Swedbank, AB                                | 2010.06.21       | EUR      | 649                    | 2,240            | 6 month EURIBOR + 4,0 percent     | 2017.06.21       | 902                                   | 303                          |
| 10. Nordea Bank Finland Plc. Lithuanian branch | 2010.09.17       | EUR      | 1,625                  | 5,611            | 1 month EUR LIBOR + 2,27 percent  | 2016.05.31       | 3,132                                 | 742                          |
| 11. Lithuanian Ministry of Finance             | 2010.10.26       | EUR      | 807                    | 2,788            | 3,948 percent                     | 2034.03.15       | 2,526                                 | -                            |
| 12. AB SEB Bank                                | 2011.02.11       | EUR      | 1,031                  | 3,560            | 6 month EUR LIBOR + 2,7 percent   | 2019.02.10       | 3,240                                 | 410                          |
| 13. Nordea Bank Finland Plc. Lithuanian branch | 2011.04.19       | EUR      | 921                    | 3,180            | 1 month EURIBOR + 2,1 percent     | 2019.04.30       | 3,180                                 | 273                          |

|     | Credit institution             | Date of contract | Currency | Currency sum, thousand | Sum LTL thousand | Interest rate                  | Term of maturity | Balance as of 31.03.2013 LTL thousand | A part of 2013, LTL thousand |
|-----|--------------------------------|------------------|----------|------------------------|------------------|--------------------------------|------------------|---------------------------------------|------------------------------|
| 14. | Lithuanian Ministry of Finance | 2011.09.02       | EUR      | 1,672                  | 5,773            | 4,123 percent                  | 2034.09.01       | 3,489                                 | -                            |
| 15. | AB SEB Bank                    | 2011.10.13       | EUR      | 290                    | 1,000            | 1 month EURIBOR + 1,9 percent  | 2019.11.30       | 535                                   | 106                          |
| 16. | AB DNB bank                    | 2012.05.30       | LTL      | 15,000                 | 15,000           | O/N+0,72 percent               | 2013.05.30       | 14,899                                | 14,899                       |
| 17. | AB SEB Bank                    | 2012.08.23       | LTL      | 10,000                 | 10,000           | 1 week. VILIBOR + 0,75 percent | 2013.08.22       | 10,000                                | 10,000                       |
|     |                                |                  |          |                        |                  |                                |                  | 65,339                                | 31,334                       |

On 24 October 2012 the Group and the Company signed a factoring with recourse agreement with Swedbank Lizingas, UAB amounted to the limit LTL 8,500 thousand. Factoring advance is 90 percent. The term of validity of agreement is 31 December 2013. Liability the factoring with recourse, amounting to LTL 6,227 thousand As of 31 March 2013 is accounted within the caption of current borrowings. The factoring bears 1-month VILIBOR plus 0.9 percent annual interest rate.

The immovable property (Note 4), bank accounts (Note 9) and land lease right of the Group and the Company were pledged as collateral for the borrowings.

## 12. Finance lease obligations

The assets leased by the Group and the Company under finance lease contracts mainly consist of vehicles. The terms of financial lease are 3 years. As of 31 March 2013 the interest rate on the financial lease obligations is fixed and is equal 4.4635 percent. The finance lease agreement is in EUR.

Future minimal lease payments were:

|   | Group               |                        | Company             |                        |
|---|---------------------|------------------------|---------------------|------------------------|
|   | As of 31 March 2013 | As of 31 December 2012 | As of 31 March 2013 | As of 31 December 2012 |
| Within one year                                   | 36                  | 48                     | 36                  | 48                     |
| From one to five years                            | 67                  | 67                     | 67                  | 67                     |
| Total financial lease obligations                 | 103                 | 115                    | 103                 | 115                    |
| Interest  | (5)                 | (6)                    | (5)                 | (6)                    |
| Present value of financial lease obligations      | 98                  | 109                    | 98                  | 109                    |
| Financial lease obligations are accounted for as: |                     |                        |                     |                        |
| - current   | 33                  | 44                     | 33                  | 44                     |
| - non-current                                     | 65                  | 65                     | 65                  | 65                     |

## 13. Grants (deferred income)

|  | Group               |                        | Company             |                        |
|--|---------------------|------------------------|---------------------|------------------------|
|  | As of 31 March 2013 | As of 31 December 2012 | As of 31 March 2013 | As of 31 December 2012 |
| Balance at the beginning of the reporting period | 26,546              | 22,211                 | 26,546              | 22,211                 |
| Received during the year                         | -                   | 5,498                  | -                   | 5,498                  |
| Amortisation                                     | (320)               | (1,163)                | (320)               | (1,163)                |
| Balance at the end of the reporting period       | 26,226              | 26,546                 | 26,226              | 26,546                 |

On 15 October 2009, the Group and the Company signed the agreement on the financing and administration of the project "Renovation of Centralised Heat Networks in the Kaunas City by Installing Advanced Technologies (Reconstruction of Heat Supply Networks at V. Krėvės Ave. 82 A. 118 H, Kaunas)", according to which the Company will be receiving financing from the European Regional Development Fund in the amount of LTL 6,000 thousand after terms and conditions of the agreement are fulfilled. The Company received the financial support in the amount of LTL 5,843 thousand by 31 March 2013. The project is completed.

On 15 October 2009, the Group and the Company signed the agreement on the financing and administration of the project "Modernisation of Kaunas City Integrated Network Centre Main (4T)", according to which the Company will be receiving financing from the European Regional Development Fund in the amount of LTL 5,990 thousand after terms and conditions of the agreement are fulfilled. The Company received the financial support in the amount of LTL 4,414 thousand by 31 March 2013. The project is completed.

On 15 October 2009, the Group and the Company signed the agreement on the financing and administration of the project "Kaunas City Main Heat Supply Networks 6T at Kuršių St. 49C, Jonavos St. between NA-7 and NA-9 and Networks under the Bridge through the river Neris in the auto-highway Vilnius-Klaipėda near Kaunas city, Complex Reconstruction for the Increase of Reliability by Installing Advanced Technologies", according to which the Company will be receiving financing from the European Regional Development Fund in the amount of LTL 2,333 thousand after terms and conditions of the agreement are fulfilled. The Company received the financial support in the amount of LTL 1,725 thousand by 31 March 2013. The project is completed.

On 21 July 2010, the Group and the Company signed the agreement on the financing and administration of the project "The development of centralized heat supply by building a new heat supply trace (heat supply network from A. Juozapavičiaus ave. 23A to A. Juozapavičiaus ave. 90)", according to which the Company will be receiving financing from the European Regional Development Fund in the amount of LTL 1,566 thousand after terms and conditions of the agreement are fulfilled. As of 31 March 2013 financing in amount of LTL 1,426 thousand has been received. The project is completed.

On 21 July 2010, the Group and the Company signed the agreement on the financing and administration of the project "The modernisation of Žaliakalnis main of Kaunas integrated network (4Ž)", according to which the Company will be receiving financing from the European Regional Development Fund in the amount of LTL 2,788 thousand after terms and conditions of the agreement are fulfilled. As of 31 March 2013 financing in amount of LTL 2,526 thousand has been received. The project is completed.

On 21 July 2011, the Group and the Company signed the agreement on the financing and administration of the project "The modernisation of Dainava area main of Kaunas integrated network (1T)", according to which the Company will be receiving financing from the European Regional Development Fund in the amount of LTL 1,560 thousand after terms and conditions of the agreement are fulfilled. As of 31 March 2013 financial support in amount of LTL 1,489 thousand has been received. The project is completed.

On 21 July 2011, the Group and the Company signed the agreement on the financing and administration of the project "The modernisation of Aukštieji Šančiai area main of Kaunas integrated network (2Ž)", according to which the Company will be receiving financing from the European Regional Development Fund in the amount of LTL 1,618 thousand after terms and conditions of the agreement are fulfilled.

On 21 July 2011, the Group and the Company signed the agreement on the financing and administration of the project "The modernisation of Viliampolė area heating network of Kaunas integrated network (9K)", according to which the Company will be receiving financing from the European Regional Development Fund in the amount of LTL 595 thousand after terms and conditions of the agreement are fulfilled.

On 21 July 2011, the Group and the Company signed the agreement on the financing and administration of the project "The modernisation of Pramonė area main of Kaunas integrated network (1Ž)", according to which the Company will be receiving financing from the European Regional Development Fund in the

amount of LTL 2,000 thousand after terms and conditions of the agreement are fulfilled. As of 31 March 2013 financing in amount of LTL 2,000 thousand has been received. The project is completed.

On 16 January 2013 the Group and the Company signed a financing agreement for the project "Reconstruction of Ežerėlis boiler-house equipping it with bio-fuel burned 3.5 MW capacity water boiler", according to which the financing in amount of LTL 1,791 thousand is provided for the Company from the funds of LEIF Climate Change Special Program after terms and conditions of the agreement are fulfilled.

On 16 January 2013 the Group and the Company signed a financing agreement for the project "Reconstruction of Noreikiškės boiler-house equipping it with bio-fuel burned 4 MW capacity water boiler", according to which the financing in amount of LTL 2,299 thousand is provided for the Company from the funds of LEIF Climate Change Special Program after terms and conditions of the agreement are fulfilled.

On 4 March 2012 Ministry of Environment of the Republic of Lithuania approved a financing for the project "Reconstruction of Pergalė boiler-house, equipping it with smoke condenser" in amount of LTL 638 thousand by the decision No D1-181.

#### 14. Employee benefit liability

According to Lithuanian legislation and the conditions of the collective employment agreement, each employee of the Group and the Company is entitled to 1 - 6 months' salary payment when leaving the job at or after the start of the pension period.

The Group's and the Company's total employee benefit liability is stated below:

|  | Group             |              | Company           |              |
|--|-------------------|--------------|-------------------|--------------|
|  | 2013<br>I quarter | 2012         | 2013<br>I quarter | 2012         |
| Employee benefit liability at the beginning of the year  | 3,297             | 2,406        | 2,999             | 2,406        |
| Paid   | (240)             | (202)        | (126)             | (198)        |
| Formed   | 26                | 1,093        | 26                | 791          |
| <b>Employee benefit liability at the end of the year</b> | <b>3,083</b>      | <b>3,297</b> | <b>2,899</b>      | <b>2,999</b> |
| Non-current employee benefit liability                   | 2,176             | 2,173        | 2,022             | 1,996        |
| Current employee benefit liability                       | 907               | 1,124        | 877               | 1,003        |

During the I quarter 2013 total amount of the benefit paid to the employees by the Group amounted to LTL 240 thousand (in 2012 – LTL 202 thousand), and by the Company – LTL 126 thousand (in 2012 – LTL 198 thousand) and are included in the caption of salaries and social security expenses in the Group's and the Company's statement of comprehensive income,

The principal assumptions used in determining pension benefit obligation for the Group's and the Company's plan is shown below:

|  | As of 31 March 2013 | As of 31 December 2012 |
|--|---------------------|------------------------|
| Discount rate                            | 4.0 percent         | 4.0 percent            |
| Employee turnover rate                   | 18.9 percent        | 18.9 percent           |
| Expected average annual salary increases | 3.0 percent         | 3.0 percent            |

#### 15. Derivative financial instruments

On 9 April 2009, the Group and the Company concluded an interest rate swap agreement. For the period from 24 August 2009 to 22 August 2014 the Group and the Company set a fixed interest rate at 4.15 percent for a floating interest rate at 6-month EUR LIBOR. The nominal amount of the transaction was EUR 1,327 thousand (the equivalent of LTL 4,583 thousand) as at 31 March 2013 (EUR 1,508 thousand (the equivalent of LTL 5,208 thousand) as at 31 December 2012). Market value of swap agreement as of

31 March 2013 amounted to LTL 159 thous and (LTL 204 thousands as of 31 December 2012). This transaction does not have material impact on the future cash flows of the Group and the Company.

## 16. Sales income

The Group's and the Company's activities are heat supplies, maintenance of manifolds, electricity production and other activities. Starting from the year 2010 a part of inhabitants chose the Company as the hot water supplier. Those activities are inter-related, so consequently for management purposes the Group's and the Company's activities are organised as one main segment – heat energy supply. The Group's and the Company's sales income according to the activities are stated below.

|   | <b>Group</b>     |                | <b>Company</b>   |                |
|---|------------------|----------------|------------------|----------------|
|   | <b>2013</b>      |                | <b>2013</b>      |                |
|   | <b>I quarter</b> | <b>2012</b>    | <b>I quarter</b> | <b>2012</b>    |
| Heat supplies                             | 164,585          | 362,667        | 164,624          | 362,728        |
| Hot water supplies                        | 1,839            | 4,818          | 1,839            | 4,818          |
| Maintenance of manifolds                  | 194              | 775            | 194              | 775            |
| Maintenance of heat and hot water systems | 151              | 721            | 67               | 399            |
| Electric energy                           | 50               | 460            | 50               | 460            |
| Maintenance of hot water meters           | 79               | 282            | 79               | 282            |
|   | <u>166,898</u>   | <u>369,723</u> | <u>166,853</u>   | <u>369,462</u> |

## 17. Other expenses

|  | <b>Group</b>     |               | <b>Company</b>   |               |
|--|------------------|---------------|------------------|---------------|
|  | <b>2013</b>      |               | <b>2013</b>      |               |
|  | <b>I quarter</b> | <b>2012</b>   | <b>I quarter</b> | <b>2012</b>   |
| Cash collection expenses                   | 680              | 2,217         | 679              | 2,203         |
| Equipment verification and inspection      | 277              | 1,490         | 277              | 1,487         |
| Maintenance of manifolds                   | 468              | 1,883         | 468              | 1,883         |
| Debts collection expenses                  | 15               | 917           | 13               | 917           |
| Sponsorship                                | -                | 503           | -                | 503           |
| Consulting expenses                        | 27               | 285           | 26               | 283           |
| Customer bills issue and delivery expenses | 133              | 455           | 133              | 455           |
| Communication expenses                     | 34               | 193           | 46               | 182           |
| Employees related expenses                 | 69               | 234           | 69               | 228           |
| Insurance                                  | 107              | 223           | 106              | 213           |
| IT maintenance and related services        | 56               | 173           | 37               | 161           |
| Membership fee                             | 55               | 281           | 55               | 281           |
| Transport expenses                         | 22               | 52            | 21               | 115           |
| Advertising expenses                       | 29               | 111           | 29               | 109           |
| Audit expenses                             | -                | 56            | -                | 52            |
| Rent of equipment and machinery            | 5                | 32            | 4                | 18            |
| Other expenses                             | 187              | 1,147         | 212              | 1,120         |
|  | <u>2,164</u>     | <u>10,252</u> | <u>2,175</u>     | <u>10,210</u> |

## 18. Other activities income and expenses

|   | <b>Group</b>     |                | <b>Company</b>   |              |
|---|------------------|----------------|------------------|--------------|
|   | <b>2013</b>      |                | <b>2013</b>      |              |
|   | <b>I quarter</b> | <b>2012</b>    | <b>I quarter</b> | <b>2012</b>  |
| <b>Income from other operating activities</b>   |                  |                |                  |              |
| Miscellaneous services                          | 738              | 1,575          | 697              | 1,416        |
| Materials sold                                  | 2                | 260            | 1                | 251          |
| Gain from sale of non-current assets            | 6                | 92             | 5                | 91           |
| Other   | 13               | 164            | 13               | 150          |
|   | <u>759</u>       | <u>2,091</u>   | <u>716</u>       | <u>1,908</u> |
| <b>Expenses from other operating activities</b> |                  |                |                  |              |
| Cost of miscellaneous services                  | (261)            | (1,139)        | (347)            | (691)        |
| Cost of materials sold                          | (1)              | (29)           | (1)              | (7)          |
| Write off of non-current assets                 | (3)              | (12)           | (3)              | (12)         |
| Loss from sale of non-current assets            | (31)             | (5)            | (30)             | (5)          |
| Other   | -                | (8)            | -                | (8)          |
|   | <u>(296)</u>     | <u>(1,193)</u> | <u>(381)</u>     | <u>(723)</u> |

## 19. Finance income

|  | <b>Group</b>     |              | <b>Company</b>   |              |
|--|------------------|--------------|------------------|--------------|
|  | <b>2013</b>      |              | <b>2013</b>      |              |
|  | <b>I quarter</b> | <b>2012</b>  | <b>I quarter</b> | <b>2012</b>  |
| Interest from late payment of accounts receivable        | 384              | 1,984        | 384              | 1,984        |
| Fines  | -                | -            | -                | -            |
| Impairment of non-current financial assets               | -                | 338          | -                | 338          |
| Change in fair value of derivative financial instruments | 45               | 129          | 45               | 129          |
| Bank interest  | 1                | 11           | 1                | 11           |
| Other  | -                | 1            | -                | 1            |
|  | <u>430</u>       | <u>2,463</u> | <u>430</u>       | <u>2,463</u> |

## 20. Finance costs

|  | <b>Group</b>          |                | <b>Company</b>        |                |
|--|-----------------------|----------------|-----------------------|----------------|
|  | <b>2013 I quarter</b> | <b>2012</b>    | <b>2013 I quarter</b> | <b>2012</b>    |
| Interest on bank loans and overdrafts      | (365)                 | (1,496)        | (365)                 | (1,496)        |
| Impairment of non-current financial assets | -                     | -              | (152)                 | (587)          |
| Penalties                                  | (154)                 | (214)          | (153)                 | (214)          |
|  | <u>(519)</u>          | <u>(1,710)</u> | <u>(670)</u>          | <u>(2,297)</u> |

## 21. Income tax

As of 31 December 2012 deferred income tax asset and liability were accounted for by applying 15 percent rate. All changes in deferred tax are reported in the statement of comprehensive income.

## 22. Basic and diluted earnings (loss) per share

Calculations of the basic and diluted earnings per share of the Group are presented below:

|  | <b>Group</b> |             | <b>Company</b> |             |
|--|--------------|-------------|----------------|-------------|
|  | <b>2013</b>  | <b>2012</b> | <b>2013</b>    | <b>2012</b> |
| Net profit                                   | 21,082       | 1,196       | 20,940         | 837         |
| Number of shares (thousand), opening balance | 42,732       | 42,732      | 42,732         | 42,732      |
| Number of shares (thousand), closing balance | 42,732       | 42,732      | 42,732         | 42,732      |
| Average number of shares (thousand)          | 42,732       | 42,732      | 42,732         | 42,732      |
| Basic and diluted earnings per share (LTL)   | 0.49         | 0.03        | 0.49           | 0.02        |

## 23. Financial assets and liabilities and risk management

### Credit risk

The Group and the Company do not have any credit concentration risk because they work with a large number of customers.

#### Number of customers

|   | Group                  |                           | Company                |                           |
|---|------------------------|---------------------------|------------------------|---------------------------|
|   | As of 31<br>March 2013 | As of 31<br>December 2012 | As of 31<br>March 2013 | As of 31<br>December 2012 |
| Individuals   | 114,718                | 114,711                   | 114,506                | 114,499                   |
| Other legal entities  | 2,118                  | 2,110                     | 2,070                  | 2,055                     |
| Legal entities financed from municipalities' and state budget | 371                    | 365                       | 340                    | 333                       |
|   | <b>117,207</b>         | <b>117,186</b>            | <b>116,916</b>         | <b>116,887</b>            |

Trade receivables of the Group and the Company by the customer groups:

|   | Group                  |                           | Company                |                           |
|---|------------------------|---------------------------|------------------------|---------------------------|
|   | As of 31<br>March 2013 | As of 31<br>December 2012 | As of 31<br>March 2013 | As of 31<br>December 2012 |
| Individuals   | 55,825                 | 57,211                    | 55,823                 | 57,208                    |
| Other legal entities  | 10,482                 | 10,387                    | 10,404                 | 10,330                    |
| Legal entities financed from municipalities' and state budget | 23,001                 | 14,488                    | 22,966                 | 14,443                    |
|   | <b>89,308</b>          | <b>82,086</b>             | <b>89,193</b>          | <b>81,981</b>             |

Considering trade and other accounts receivables, the terms of which is still not expired and their impairment as of date of financial statements is not determined, according to Management opinion there is no indications that debtors will not fulfil their payment liabilities, because a balance of receivables are controlled constantly. The Group and the Company considers that maximum risk is equal to the sum of receivables from buyers and other receivables, less recognized impairment losses as of the balance sheet date (note 8).

Cash and cash equivalents in banks, which were evaluated in accordance with long-term borrowing ratings\*:

|                                | Group                  |                           | Company                |                           |
|--------------------------------|------------------------|---------------------------|------------------------|---------------------------|
|                                | As of 31<br>March 2013 | As of 31<br>December 2012 | As of 31<br>March 2013 | As of 31<br>December 2012 |
| A                              | 1,336                  | 407                       | 1,237                  | 383                       |
| A+                             | 902                    | 674                       | 902                    | 674                       |
| AA-                            | 11                     | 29                        | 11                     | 29                        |
| Bank with no rating attributed | 126                    | 31                        | 126                    | 31                        |
|                                | <b>2,375</b>           | <b>1,141</b>              | <b>2,276</b>           | <b>1,117</b>              |

\*- external credit ratings set by *Fitch Ratings* agency.

The Group and the Company do not guarantee obligations of the other parties in 2013 and in 2012.

With respect to credit risk arising from the other financial assets of the Group and the Company, which comprise cash and cash equivalents and available-for-sale financial investments, the Group's and the Company's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

### Interest rate risk

All of the borrowings of the Group and the Company, except those loans signed with Ministry of Finance of the Republic of Lithuania, are at variable interest rates, therefore the Group and the Company faces an interest rate risk. In 2013 and 2012 to manage variable rate risk the Company has entered into interest rate swap agreements, in which the Company agrees to exchange, at specified intervals, the difference between

fixed and variable rate interest amounts as described in Note 15, calculated by the reference to an agreed upon notional principal amount.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates (increase and decrease in basis points was determined based on Lithuanian economic environment and the Group's and the Company's historical experience), with all other variables held constant, of the Group's and the Company's profit before tax (estimating debts with floating interest rate). There is no impact on the Group's and the Company's equity, other than current year profit impact.

|             | <u>Increase/decrease in basis points</u> | <u>Effect on income tax</u> |
|-------------|--|-----------------------------|
| <b>2013</b> |  |                             |
| LTL         | +200                                     | (81)                        |
| LTL         | -200                                     | 81                          |
| EUR         | +50                                      | (20)                        |
| EUR         | -50                                      | 20                          |
| <b>2012</b> |  |                             |
| LTL         | +200                                     | (81)                        |
| LTL         | -200                                     | 81                          |
| EUR         | +50                                      | (21)                        |
| EUR         | -50                                      | 21                          |

#### Liquidity risk

The Group's and the Company's policy is to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of overdrafts and committed credit facilities to meet its commitments at a given date in accordance with its strategic plans. The Group's liquidity (total current assets / total current liabilities) and quick ((total current assets - inventories) / total current liabilities) ratios as of 31 March 2013 were 1.05 and 1.01 respectively (0.85 and 0.81 as of 31 December 2012). The Company's liquidity and quick ratios as of 31 March 2013 were 1.05 and 1.01, respectively (0.85 and 0.82 as of 31 December 2012).

To solve all liquidity issues the Group and the Company implement the following action plan:

- Since 1 October 2009, the heat price for consumers is calculated using two components. A constant component of the heat price remains unchanged for the period during which the recalculated heat price is valid. Only a variable component changes depending on changes in fuel prices thus allowing the Company to reduce possible losses in case of rise in fuel prices.
- Considering the current situation the Group and the Company started to reduce its expenses.
  - The plan of reducing losses in production and supply is being currently implemented;
  - The analysis of cash flows is done regularly, is planned and organized the need of working capital.

Unsecured bank overdraft and bank loan facilities:

|               | <b>Group</b>                   |                                   | <b>Company</b>                 |                                   |
|---------------|--------------------------------|-----------------------------------|--------------------------------|-----------------------------------|
|               | <b>As of 31<br/>March 2013</b> | <b>As of 31<br/>December 2012</b> | <b>As of 31<br/>March 2013</b> | <b>As of 31<br/>December 2012</b> |
| Amount used   | 24,899                         | 24,563                            | 24,899                         | 24,563                            |
| Amount unused | 101                            | 437                               | 101                            | 437                               |
|               | <b>25,000</b>                  | <b>25,000</b>                     | <b>25,000</b>                  | <b>25,000</b>                     |

The table below summarises the maturity profile of the Group's financial liabilities as of 31 March 2013 and as of 31 December 2012 based on contractual undiscounted payments (scheduled payments including interest).

|                                       | <b>Less than 3<br/>months</b> | <b>6 to 12<br/>months</b> | <b>2 to 5<br/>years</b> | <b>More than 5<br/>years</b> | <b>Total</b>   |
|---------------------------------------|-------------------------------|---------------------------|-------------------------|------------------------------|----------------|
| Interest bearing loans and borrowings | 12,365                        | 19,821                    | 24,146                  | 16,185                       | 72,517         |
| Trade payables                        | 63,293                        | 105                       | 23                      | -                            | 63,421         |
| <b>Balance as of 31 March 2013</b>    | <b>75,658</b>                 | <b>19,926</b>             | <b>24,169</b>           | <b>16,185</b>                | <b>135,938</b> |

|                                       | Less than 3<br>months | 4 to 12<br>months | 2 to 5<br>years | More than 5<br>years | Total          |
|---------------------------------------|-----------------------|-------------------|-----------------|----------------------|----------------|
| Interest bearing loans and borrowings | 2,422                 | 31,900            | 24,038          | 16,061               | 74,421         |
| Trade payables                        | 72,592                | 273               | 23              | -                    | 72,888         |
| <b>Balance as of 31 December 2012</b> | <b>75,014</b>         | <b>32,173</b>     | <b>24,061</b>   | <b>16,061</b>        | <b>147,309</b> |

The table below summarises the maturity profile of the Company's financial liabilities, as of 31 March 2013 and as of 31 December 2012 based on contractual undiscounted payments (scheduled payments including interest).

|                                       | Less than 3<br>months | 6 to 12<br>months | 2 to 5<br>years | More than 5<br>years | Total          |
|---------------------------------------|-----------------------|-------------------|-----------------|----------------------|----------------|
| Interest bearing loans and borrowings | 12,365                | 19,821            | 24,146          | 16,185               | 72,517         |
| Trade payables                        | 63,240                | 105               | 23              | -                    | 63,368         |
| <b>Balance as of 31 March 2013</b>    | <b>75,605</b>         | <b>19,926</b>     | <b>24,169</b>   | <b>16,185</b>        | <b>135,885</b> |

|                                       | Less than 3<br>months | 4 to 12<br>months | 2 to 5<br>years | More than 5<br>years | Total          |
|---------------------------------------|-----------------------|-------------------|-----------------|----------------------|----------------|
| Interest bearing loans and borrowings | 2,422                 | 31,900            | 24,038          | 16,061               | 74,421         |
| Trade payables                        | 72,624                | 273               | 23              | -                    | 72,920         |
| <b>Balance as of 31 December 2012</b> | <b>75,046</b>         | <b>32,173</b>     | <b>24,061</b>   | <b>16,061</b>        | <b>147,341</b> |

#### Trade payables

Trade payables of the Group and the Company by supplier groups:

|                    | Group                  |                           | Company                |                           |
|--------------------|------------------------|---------------------------|------------------------|---------------------------|
|                    | As of 31<br>March 2013 | As of 31<br>December 2012 | As of 31<br>March 2013 | As of 31<br>December 2012 |
| For heat purchased | 51,280                 | 55,308                    | 51,280                 | 55,308                    |
| Contractors        | 4,278                  | 9,689                     | 4,278                  | 9,689                     |
| Other suppliers    | 7,863                  | 7,891                     | 7,810                  | 7,923                     |
|                    | <b>63,421</b>          | <b>72,888</b>             | <b>63,368</b>          | <b>72,920</b>             |

30 day settlement period is set with KTE for purchased heat energy, 90-180 day settlement period – with contractors, 5-30 day settlement period – with other suppliers,

As of 31 March 2013 the Group had an LTL 9,912 thousand (31 December 2012 – LTL 9,828 thousand) of overdue trade creditors, and the Company – LTL 9,912 thousand (31 December 2012 – LTL 9,817 thousand).

#### Foreign currency risk

All sales and purchases transactions as well as the financial debt portfolio of the Group and the Company are denominated in LTL and EUR. As litas is pegged to euro, therefore, material foreign currency risk is not incurred.

#### Fair value of financial instruments

The Company's principal financial instruments accounted for at amortised cost are trade and other current and non-current receivables, trade and other payables, long-term and short-term borrowings. The net book value of these amounts is similar to their fair value.

Fair value is defined as the amount at which the instrument could be exchanged between knowledgeable willing parties in an arm's length transaction, other than in forced or liquidation sale. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models as appropriate.

The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

- The carrying amount of current trade accounts receivable, current trade accounts payable, other receivables and other payables and current borrowings approximate their fair value.
- The fair value of trade and other payables, long-term and short-term borrowings is based on the quoted market price for the same or similar issues or on the current rates available for borrowings with the same maturity profile. The fair value of non-current borrowings with variable and fixed interest rates approximates their carrying amounts.

Categories of financial instruments:

Financial assets:

|                        | <b>Group</b>                       |                                       |                                       | <b>Company</b>                     |                                       |                                       |
|------------------------|------------------------------------|---------------------------------------|---------------------------------------|------------------------------------|---------------------------------------|---------------------------------------|
|                        | <b>As of 31<br/>March<br/>2013</b> | <b>As of 31<br/>December<br/>2012</b> | <b>As of 31<br/>December<br/>2011</b> | <b>As of 31<br/>March<br/>2013</b> | <b>As of 31<br/>December<br/>2012</b> | <b>As of 31<br/>December<br/>2011</b> |
| Cash and bank balances | 6,868                              | 5,332                                 | 5,936                                 | 6,768                              | 5,308                                 | 5,899                                 |
| Loans and receivables  | 100,732                            | 88,225                                | 64,639                                | 100,618                            | 88,120                                | 64,690                                |
| Financial assets       | 433                                | 433                                   | 95                                    | 433                                | 433                                   | 95                                    |
|                        | <b>108,033</b>                     | <b>93,990</b>                         | <b>70,670</b>                         | <b>107,819</b>                     | <b>93,861</b>                         | <b>70,684</b>                         |

Financial liabilities:

|   | <b>Group</b>                       |                                       |                                       | <b>Company</b>                     |                                       |                                       |
|---|------------------------------------|---------------------------------------|---------------------------------------|------------------------------------|---------------------------------------|---------------------------------------|
|   | <b>As of 31<br/>March<br/>2013</b> | <b>As of 31<br/>December<br/>2012</b> | <b>As of 31<br/>December<br/>2011</b> | <b>As of 31<br/>March<br/>2013</b> | <b>As of 31<br/>December<br/>2012</b> | <b>As of 31<br/>December<br/>2011</b> |
| Carried at fair value<br>through profit or loss<br>(level 2 in the fair value<br>hierarchy) | 159                                | 204                                   | 333                                   | 159                                | 204                                   | 333                                   |
| Carried at amortised cost   | 135,064                            | 142,842                               | 106,203                               | 135,011                            | 142,874                               | 106,266                               |
|   | <b>135,223</b>                     | <b>143,046</b>                        | <b>106,536</b>                        | <b>135,170</b>                     | <b>143,078</b>                        | <b>106,599</b>                        |

The carrying amounts of financial assets and financial liabilities approximate their fair values.

#### Capital management

The primary objectives of the Group's and the Company's capital management are to ensure that the Group and the Company comply with externally imposed capital requirements and that the Group and the Company maintains healthy capital ratios in order to support its business and to maximise shareholders' value.

The Group and the Company manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. To maintain or adjust the capital structure, the Group and the Company may issue new shares, reconsider the dividend payment to shareholders, and return capital to shareholders. No changes were made in the objectives, policies or processes of capital management as of 31 March 2013 and 31 December 2012.

The Group and the Company is obliged to upkeep its equity of not less than 50 percent of its share capital, as imposed by the Law on Companies of Republic of Lithuania. The Group and the Company complies with equity requirements imposed by the Law on Companies of Republic of Lithuania. There were no other externally imposed capital requirements on the Group and the Company.

The Group and the Company monitor capital using debt to equity ratio. Capital includes ordinary shares, reserves, earnings retained attributable to the equity holders of the parent. There is no specific debt to equity ratio target set out by the Group's and the Company's management, however current ratios presented below

are treated as sustainable performance indicators: as satisfactory performance indicators and as creditable performance indicators:

|   | <b>Group</b>                   |                                   | <b>Company</b>                 |                                   |
|---|--------------------------------|-----------------------------------|--------------------------------|-----------------------------------|
|   | <b>As of 31<br/>March 2013</b> | <b>As of 31<br/>December 2012</b> | <b>As of 31<br/>March 2013</b> | <b>As of 31<br/>December 2012</b> |
| Non-current liabilities (including deferred tax and grants (deferred income)) | 70,607                         | 70,665                            | 71,141                         | 71,176                            |
| Current liabilities   | 106,663                        | 115,361                           | 106,411                        | 115,050                           |
| <b>Liabilities</b>  | <b>177,270</b>                 | <b>186,026</b>                    | <b>177,552</b>                 | <b>186,226</b>                    |
| <b>Equity</b>   | <b>282,277</b>                 | <b>261,195</b>                    | <b>284,966</b>                 | <b>264,181</b>                    |
| <b>Debt* to equity ratio ( percent)</b>                                       | <b>62.80</b>                   | <b>71.22</b>                      | <b>62.31</b>                   | <b>70.49</b>                      |

\* Debt contains all non-current (including deferred income tax liability and grants (deferred revenues)) and current liabilities,

#### Market risk

External risk factors that make influence to the Group's and the Company's main activity: increase in fuel prices, unfavourable law and legal acts of Government and other institutions, decisions of local municipality, decrease of number of consumers, the cycle of activity, environmental requirements.

More detailed information on risks is provided in Annual report.

## **24. Commitments and contingencies**

### Litigations

On 3 of November, 2010 the Company placed claim to Vilnius Commercial Arbitration Court (hereafter – VCAC) regarding additional forfeit in amount LTL 12,352 thousand from defendant KTE due to the improper fulfilment of the Investments agreement. VCAC satisfied Company's claim partly by its decision of 19 of December, 2011: a fine in amount of LTL 7,054 thousand, 6 percent annual interest for the period from 4 of November, 2010 until the day of fulfilment of this decision from the sum awarded, LTL 37 thousand and LTL 42 thousand of compensation expenses were awarded from the defendant KTE in favour of the Company. On 23 December, 2011 KTE placed a claim to Lithuanian Court of Appeal in order to discharge a decision of VCAC, also an application to stop prosecution of this decision until the case will be investigated. KTE agreed to refuse the appeal in Vilnius Commercial Arbitration Court case No 203, and with no further litigation to pay to Company a fine in amount of a little bit more than LTL 7 million, adjudged from KTE in this case. Further progress of the process is described in Note 26.

As of 31 March 2013 and of 31 December 2012 the accrual for the sum of claims was not made in financial statements of the Group and the Company, because the income from fines and penalties is shown in those statements only when it is paid-in.

The administration of Kaunas Municipality (hereafter – Municipality) has placed a claim on 31 August 2012 against the Company, its members of the Management Board (A. Augonis, G. D. Ašmys, K. Buinevičius, G. Čizikas, V. Mikaila, V. Rybelis) and the third person – KTE, asking the court to recognize the decisions of 9 August 2012 of the Company's Management Board regarding agreements with KTE as invalid. Also Municipality asks to recognize as invalid *ab initio* agreements themselves if they were concluded. A preparatory session of the court for this case was appointed on 5 February 2013, in which a municipality administration was obliged to eliminate limitations of the claim. Forasmuch defects were not eliminated until the determined term, the court made the decision on 27 February 2013, according to which a claim of Municipality was left untried.

### Leasing and construction work purchase arrangements

On 18 March, 2010 The Company entered into the lease arrangements with KTE for the real estate. Under this lease arrangement the Company leases to KTE the boiler with technological pipelines for heat production, located in Petrašiūnai power plant territory. The term of lease is 5 years.

On 20 December, 2010 the Company entered into the lease arrangements with UAB ENG for the real estate. Under this lease arrangement the Company leases to UAB ENG Garliava boiler-house for building of heat production equipment. The Company undertakes obligations to procure heat produced in this equipment. The term of lease is 20 years.

Future liabilities of Group and the Company under valid purchase arrangements as of 31 March 2013 amounted to LTL 16,096 thousand.

## 25. Related parties transactions

The parties are considered related when one party has the possibility to control the other or have significant influence over the other party in making financial and operating decisions.

In 2013 and 2012 the Group and the Company did not have any significant transactions with the other companies controlled by Kaunas city municipality except for the purchases or sales of the utility services. The services provided to the Kaunas city municipality and the entities controlled by the Kaunas city municipality were executed at market prices.

In 2013 and 2012 the Group's and the Company's transactions with Jurbarkas city municipality, Kaunas city municipality and the entities, financed and controlled by Kaunas city municipality and amounts of receivables from and liabilities to them at the end of the year were as follows:

| 2013  | Purchases | Sales  | Receivables | Payables |
|---|-----------|--------|-------------|----------|
| Kaunas city municipality and entities financed and controlled by Kaunas city municipality | 507       | 23,196 | 31,972      | 400      |
| Jurbarkas city municipality   | -         | 686    | 1,620       | -        |
| 2012  | Purchases | Sales  | Receivables | Payables |
| Kaunas city municipality and entities financed and controlled by Kaunas city municipality | 1,351     | 41,896 | 20,312      | 440      |
| Jurbarkas city municipality   | 4         | 2,947  | 427         | 1        |

The Group's and the Company's As of 31 March 2013 allowance for overdue receivables from entities financed and controlled by municipalities amounted to LTL 10,705 thousand (As of 31 December 2012 – LTL 10,905 thousand). The amounts outstanding are unsecured and will be settled in cash. No guarantees on receivables have been received.

In 2013 and 2012 the Company's transactions with the subsidiary and the balances at the end of the year were as follows:

| Pastatų priežiūros paslaugos UAB | Purchases | Sales | Receivables | Payables |
|----------------------------------|-----------|-------|-------------|----------|
| 2013                             | 155       | 56    | -           | -        |
| 2012                             | 1,204     | 87    | -           | 143      |

As of 31 December, 2012 the Company has formed an LTL 383 thousand (as of 31 December 2012 – LTL 314 thousand) of common postponements for the receivables from Subsidiary.

### Remuneration of the management and other payments

As at 31 March 2013 and as at 31 December 2012 the Group's and the Company's management team comprised 6 and 4 persons respectively.

|                             | Group |      | Company |      |
|-----------------------------|-------|------|---------|------|
|                             | 2013  | 2012 | 2013    | 2012 |
| Key management remuneration | 80    | 528  | 63      | 417  |

|                                     | Group                  |                           | Company                |                           |
|-------------------------------------|------------------------|---------------------------|------------------------|---------------------------|
|                                     | As of 31<br>March 2013 | As of 31<br>December 2012 | As of 31<br>March 2013 | As of 31<br>December 2012 |
| Calculated post-employment benefits | 97                     | 97                        | 90                     | 90                        |

In 2013 and 2012 the management of the Group and the Company did not receive any loans or guarantees; no other payments or property transfers were made or accrued.

## 26. Post balance sheet events

On 11 April 2013 the Company and KTE signed a debt netting harmonization act regarding inclusion of sums (in amount of LTL 8,164 thousands) adjudged by Vilnius Commercial Arbitration Court on 19 December 2011.

On 15 April 2013 the Company applied to Vilnius Regional Court with the claim "Due to the defendant's UAB GEKO Kaunas claim to recalculate AB Kauno Energija heat purchase prices in November and December 2012 according to comparative expenditures of heat production".

On 16 April 2013 the Company completed the procedures of reorganization of UAB Pastatų Priežiūros Paslaugos in the way of dissociation. On 16 April 2013 the statutes of Subsidiary continuing its activities and of the newly established legal entity UAB Kauno Energija NT were registered at the Register of Legal Entities.

On 22 April 2013 the Company announced a contest of sale of Subsidiary.

\*\*\*

**AB KAUNO ENERGIJA CONSOLIDATED ANNUAL REPORT FOR THE FIRST QUARTER OF  
THE YEAR 2013**



**AB KAUNO ENERGIJA**  
Company code 235014830  
Raudondvario Rd. 84, 47179 Kaunas, Lithuania

## CONTENTS

|   |    |
|---|----|
| 1. Reporting period of the Consolidated Annual Report   | 4  |
| 2. Companies composing the group of companies and their contact data  | 4  |
| 3. The nature of core activities of the companies composing the group of companies  | 4  |
| 4. The Issuer's agreements with finance broker companies and (or) credit institutions   | 5  |
| 5. Trade in securities of companies composing the group of companies in regulated markets (the name of regulated market, the amount of securities in trade)   | 5  |
| 6. Objective overview of the state, performance and development of the group of companies, and description of exposure to key risks and uncertainties   | 5  |
| 6.1. Company's state, performance and development overview  | 5  |
| 6.2. Description of exposure to key risks and uncertainties we confront with and their impact on Company's results  | 7  |
| 7. Analysis of financial and non-financial performance results of the group of companies, information related to environmental and personnel issues   | 7  |
| 8. References to and additional explanations of data presented in the annual financial statements, and key features of internal control and risk management systems relating to the preparation of the consolidated financial statements  | 10 |
| 9. Significant events after the end of the I quarter of the year 2013   | 11 |
| 10. Plans and forecasts of the activities of the group of companies   | 11 |
| 11. Information on research and development activities of the group of companies  | 13 |
| 12. Information on own shares acquired and held by the Issuer   | 13 |
| 13. Information on financial risk management aims, hedging instruments in use that are subject to hedging accounting, and the scope of exposure of the group of companies to price risk, credit risk, liquidity risk and cash flow risk, provided the group of companies uses financial instruments and it is important for the assessment of assets, equity, liabilities, financial position and performance results of the group of companies | 13 |
| 14. Information on the Issuer's branch office and subsidiary undertakings   | 13 |
| 15. Structure of authorized share capital   | 15 |
| 16. Data on shares issued by the Issuer   | 15 |
| 17. Information on the Issuer's shareholders  | 17 |
| Ordinary registered shares  | 18 |
| 18. Employees   | 19 |
| 19. Procedure for amending the Issuer's Articles of Association   | 19 |
| 20. Issuer's bodies   | 20 |
| 21. Members of the collegiate bodies, the company's manager, chief financier  | 21 |
| 22. All significant agreements, where the Issuer is one of the contractual parties, which would come into force, would be subject to amendments or termination in case of changes in controls of the Issuer, also their impact, except for those cases, when due to the nature of agreements, the disclosure of such agreements would cause significant damages to the Issuer   | 25 |
| 23. All agreements of the Issuer and its managerial body members or employees, which provide for compensation in case of their resignation or termination of employment on no grounds or in case their employment is terminated due to changes in controls of the Issuer  | 25 |
| 24. Information on major transactions with related parties  | 25 |
| 25. Information on compliance with the Governance Code of Companies   | 25 |
| 26. Data on publicly declared information   | 26 |



**LIST OF TABLES**

|          |   |    |
|----------|---|----|
| Table 1  | Comparison of financial figures of the I quarter of the year 2013 with ones from 2012 years.  | 8  |
| Table 2  | Comparison of non-financial figures of the I quarter of the year 2013 with ones from 2012 years   | 9  |
| Table 3  | Issuers' authorised capital structure by the type of shares.....  | 15 |
| Table 4  | History of trade of Company's securities in 2009 – I quarter 2013 years.....  | 15 |
| Table 5  | Issuer's shareholders, who owned as of 31 March 2013 more than 5 percent of Company's authorized capital registered on 26 March 2010..... | 17 |
| Table 6  | Company's shareholders as of 31 March 2013.....   | 18 |
| Table 7  | Shareholders, who owned as of 31 March 2013 more than 5 percent of Company's shares, issued in unadvertised securities circulation.....   | 18 |
| Table 8  | Alternation of the number of employees in 2011 – 2013.....  | 19 |
| Table 9  | Background of Group's and Company's employees in 2011 – 2013.....   | 19 |
| Table 10 | Average conditional number of employees and average monthly salary.....   | 19 |

**LIST OF CHARTS**

|         |   |    |
|---------|---|----|
| Chart 1 | Repartition of Company's heat consumers by groups.....                                      | 5  |
| Chart 2 | A comparison of constant heat price component.....  | 7  |
| Chart 3 | Income and profit of the Group and the Company.....   | 9  |
| Chart 4 | Price of the heat supplied by AB Kauno Energija.....  | 10 |
| Chart 5 | Elements of heat price structure.....   | 10 |
| Chart 6 | Income, expenditure and profit of UAB Pastatų Priežiūros Paslaugos.....                     | 14 |
| Chart 7 | History of the share price and turnover in 2008 – I quarter 2013 years.....                 | 16 |
| Chart 8 | Comparison of Company's share price with the index of own sector and OMX Vilnius index..... | 16 |
| Chart 9 | Structure of shareholders as at 31 March 2013.....  | 17 |



## 1. Reporting period of the Consolidated Annual Report

Reporting period, for which the Consolidated Annual Report of AB Kauno Energija has been prepared, is the first quarter of the year 2013.

## 2. Companies composing the group of companies and their contact data

AB Kauno Energija (hereinafter referred to as the Company or the Issuer) prepares both the Company's and the consolidated financial statements. The group (hereinafter referred to as the Group) consists of the Company and its subsidiary undertaking UAB Pastatų Priežiūros Paslaugos, in which the Issuer directly controls 100% of shares.

### The main data about the Company:

|                              |  |
|------------------------------|--|
| Name of the company:         | AB Kauno Energija  |
| Legal-organizational form:   | Public company   |
| Address:                     | Raudondvario rd. 84, 47179 Kaunas                                |
| Code of the legal person:    | 235014830  |
| Telephone number:            | (+370 37) 305 650  |
| Fax number:                  | (+370 37) 305 622  |
| E mail:                      | <a href="mailto:info@kaunoenergija.lt">info@kaunoenergija.lt</a> |
| Webpage:                     | <a href="http://www.kaunoenergija.lt">www.kaunoenergija.lt</a>   |
| Registration date and place: | 22 August 1997, Kaunas, Order No. 513                            |
| Register manager:            | Kaunas Branch of State Enterprise Register Centre                |
| VAT payer code:              | LT350148314  |

### The main data about the subsidiary:

|                              |  |
|------------------------------|--|
| Name of the company:         | UAB Pastatų Priežiūros Paslaugos                                 |
| Legal - organizational form: | Private company  |
| Address:                     | Savanorių av. 347, 49423 Kaunas                                  |
| Code of the legal person:    | 300580563  |
| Telephone number:            | (+370 37) 305 959  |
| Fax number:                  | (+370 37) 311 877  |
| E-mail:                      | <a href="mailto:info@kaunoenergija.lt">info@kaunoenergija.lt</a> |
| Webpage:                     | <a href="http://www.p-p-p.lt">www.p-p-p.lt</a>                   |
| Registration date and place: | 1 July 2006, Kaunas  |
| Register manager:            | Kaunas Branch of State Enterprise Register Centre                |
| VAT payer code:              | LT100002506015   |

## 3. The nature of core activities of the companies composing the group of companies

The nature of core activities of the Group is production and services. AB Kauno Energija is the parent Company of the Group. The Company produces and sells heat energy to consumers in Kaunas and Jurbarkas cities and in part of Kaunas administrative districts (Akademija borough, Ežerėlis bor., Domeikava village, Garliava bor., Girionys vil., Neveronys vil., Raudondvaris vil.), (hereinafter referred to as the Kaunas region).

Starting from 1 May 2010 the Company supplies hot water (carries out hot domestic water supplier activities) for part of multifamily residential buildings in Kaunas and Jurbarkas cities and Kaunas region (hereinafter the supplies of heat and hot domestic water referred to as the heat). As of 31 March 2013 AB Kauno Energija was a hot water supplier for 248 houses in Kaunas, 5 in Kaunas region and 5 in Jurbarkas. Income from hot water supplies activities amounts to approximately 1.1 per cent of all of Company's sales revenue.

In addition, the Company produces electric energy in small quantities in Kaunas city and Kaunas region and the steam in Kaunas city, maintains engineering structures (collectors – manifolds), operates a heat and



electricity production sources. The Group and the Company carries out a supervision of indoor heat and hot water supply systems, maintenance of heat points equipment, repairs of buildings and constructions, repairs of heat points and other heating equipment, provides rental services of transport and premises, and other services to individuals and legal entities in relation to the supervision and maintenance of heat economy. The Group and the Company are engaged in licensed activity in accordance with the licenses held.

#### 4. The Issuer's agreements with finance broker companies and (or) credit institutions

On 1 April 2003 the Issuer signed Service Agreement with AB SEB Bankas (company code 112021238, Gedimino ave. 12, Vilnius), represented by the Finance Markets Department.

#### 5. Trade in securities of companies composing the group of companies in regulated markets (the name of regulated market, the amount of securities in trade)

As of 31 March 2013, the 20.031.977 (twenty million thirty one thousand nine hundred seventy seven) of Issuer's ordinary registered shares (VP ISIN code LT0000123010) with total nominal value equal to LTL 120.191.862 (one hundred and twenty million one hundred ninety one thousand eight hundred sixty two) were included into NASDAQ OMX Vilnius Stock Exchange Baltic secondary trade list. The beginning of listing of Company's shares id 28 December 1998.

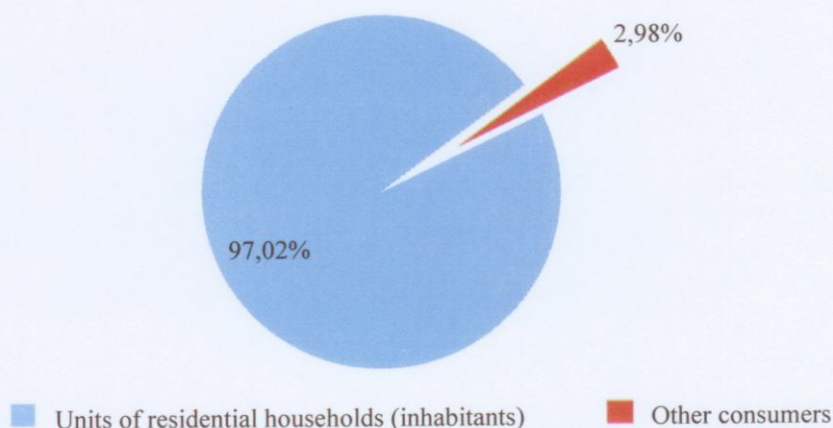
#### 6. Objective overview of the state, performance and development of the group of companies, and description of exposure to key risks and uncertainties

##### 6.1. Company's state, performance and development overview

The Company covers a major part of heat supply market in Kaunas and in Jurbarkas. As of 31 March 2013 a 3.525 companies and organizations and 114.579 units of residential households (inhabitants), totally – 118.104 consumers (objects by addresses) were connected to the integrated and local heat supply networks of the Company. 1 new consumers were connected to the Company's heat supply networks in first quarter of the year 2013, the total installed capacity of whose contains 0.836 MW. Repartition of consumers is shown in Chart 1.

Chart 1

Repartition of Company's heat consumers by groups



The vision of the Group and the Company is to be modern, effective, competitive, and value creating group of companies engaged in heat and electric energy production, supply and distribution and in maintenance of buildings and indoor heating and hot water supply systems. Maintenance of buildings and indoor heating and hot water supply systems is performed following provisions of Chapter 20 of the Law on Heat Sector.



The values of the Group and the Company:

- 50 years of experience in heat production and supplies business;
- responsibility against consumers for fail-safe heat and hot water supplies and for quality maintenance of buildings and of heating and hot water supplies systems;
- high qualifications of employees, enabling to reach a highest rates of efficiency;
- ability to inoculate a latest scientific achievements in the activity of Group of companies;
- ability to cooperate with state and municipal institutions and also with academic institutions;
- ability to participate in creation of scientific programs;
- reputation of reliable, modern and solid group of companies.

The strategic goals of the Group and the Company:

- to purposefully reduce the expenses of production, supplies, service and management in order to reduce the net price of centrally supplied heat and hot water for customers;
- to fulfil all the measures indicated in investment plans until the end of the year 2015 in order to ensure fail-safe heat supplies for customers;
- to expand the use of renewable energy sources in Company's heat production facilities in order to fulfil the requirement of directive 2009/28/EB to produce not less than 23% of heat from renewable energy sources until the year 2020;
- to expand the competition in heat production sector;
- to maintain the current position of companies in the market and to expand it.

The Company continued its activities in first quarter of the year 2013 following strategic guidelines of Kaunas city central heat supplies, which were approved by the decision No T-236 of Kaunas city council of 7 April 2011 "Regarding strategic guidelines of Kaunas city central heat supply" and following Strategy of Kaunas city central heat supplies accepted by the decision No T-626 of Kaunas city council of 14 November 2012 "Regarding approval of Strategy of Kaunas city central heat supplies". This strategy is prepared estimating strategy, prepared by Lithuanian Energy Institute "A renewed strategy of AB Kauno Energija for development of heat supplies system for the period of 2007 – 2020". A necessity of more extensive use of renewable sources in Company's heat production sources is emphasized.

When preparing development guidelines it is also considered to the strategy of AB Kauno Energija for development of heat supplies system for the period of 2007 – 2020. The Company continues to implement projects of change of main pipelines, partly financed by European Union structural funds, optimizes diameters of pipelines, connects new consumers to central heating networks and modernizes heat production sources. As new period (2013 – 2016) of basic heat price regulation approved by the National Control Commission for Prices and Energy (hereinafter – NCC) started and as the regulating environment has changed, the Company reoriented activity development guidelines and predicts to orient the most part of investments to development of new heat production sources and modernization of existing sources in order to reduce expenses of heat production.

In first quarter of the year 2013, the Group's net profit was LTL 21.082 thousand, Company's – LTL 20.940 thousand. Income from Group's main activities was LTL 166.898 thousand, Company's – LTL 166.853 thousand. The main part of income was received from sales of heat: Group's – 98.61 per cent, Company's – 98.66 per cent. Company's income from sales of heat reached LTL 164.624 thousand and comparing to first quarter of the year 2012 it increased by 5.3 per cent.

Company's investments into modern technologies (reconstruction of heat production sources, equipping them with condensers, automation of boiler-houses of isolated and integrated networks, e-services system for customers, distant heat meters' data transfer and processing system, modern customer servicing system based on 'One Call' principle), reconstructions of heat supply networks helps the Company to quickly adapt to changes in the market and to become an innovative company engaged in heat and hot water supply as well as in heat production sources maintenance in Kaunas and Jurbarkas cities and Kaunas region.



As the regulation settings has changed and as the National Control Commission for Prices and Energy (hereinafter – Commission) determined new components of Company's heat price for the first year of basic price validity on 24 January 2013, the Company prepared and started to implement a new projects of modernization of heat production sources of Kaunas integrated network. The main projects are installing of condensers (economizers) in existing heat production sources and development of bio-fuel burning projects.

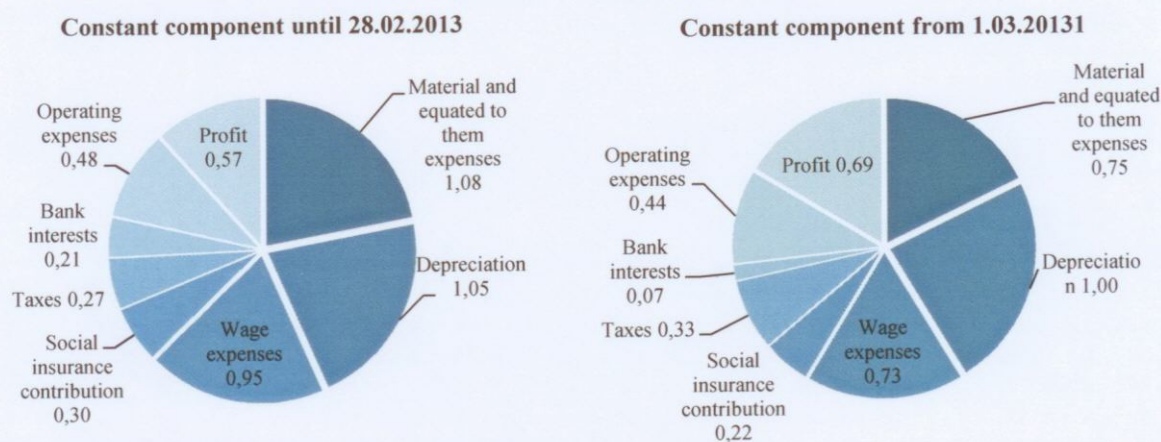
Changes in Law on Heat Sector of the Republic of Lithuania and changes in NCC's regulation allowed favourable conditions to invest to construction and reconstruction of heat production sources, thus increasing competition in heat production sector and effectively reducing heat price for consumers.

On 24 January 2013 the National Control Commission for Prices and Energy (hereinafter – commission) by the decision *ex-parte* determined a lower components of Company's heat price for the first year of basic price validity. In cooperation with Commission the project of basic heat price components submitted by the Company was corrected by determining a lower expenses value for wage ant interests. New heat price components were started to apply from 1 March 2013. Hot water price components were agreed with the Commission by the decision No O3-44 of 22 February 2013 and were started to apply from 1 March 2013.

A new constant heat price component lowered from 4.91 ct/kWh to 4.23 ct/kWh, i. e. in 13.8 per cent (LTL 10 million) due to the reduced expenses for repairs, wage and interests. A comparison of constant heat price component valid until 28 February 2013 and of a new one valid from 1 March 2013 is presented in Chart 2 below.

Chart 2

### A comparison of constant heat price component



Other information has not been changed from the information, announced in AB Kauno Energija consolidated annual report for the year 2012.

## 6.2. Description of exposure to key risks and uncertainties we confront with and their impact on Company's results

Information on external risks, making an influence on Company's main activity, economical risks, consumption decrease risk, financial / economic risk, political – legal factors, social factors and risks, technical – technological factors, ecological factors, repayment of loans has not been changed from the information, announced in AB Kauno Energija consolidated annual report for the year 2012.

## 7. Analysis of financial and non-financial performance results of the group of companies, information related to environmental and personnel issues

In the first quarter of the year 2013 main activity sales revenue compared with the first quarter of the year 2012 increased 4.9 per cent. This change was mainly caused by higher price of heat, the main part of it contains of fuel component. The average price in the first quarter of the year 2012 was 29.00 ct/kWh and was



at 3.35 per cent higher than average price of the first quarter of the year 2013 which was 28.06 ct/kWh. Heat sales volume in the first quarter of the year 2013 compared to the first quarter of the year 2012 was at 21.0 per cent bigger, and the average annual temperature was lower (0.68 °C). During the first quarter of the year 2013 heating season the average outdoor temperature was -3.93 °C, and in the first quarter of the year 2012 – (-3.25 °C). The comparison of financial ratios for the first quarter of the year 2013 with the ones for the first quarter of the year 2012 is given in Table 1 below.

Table 1

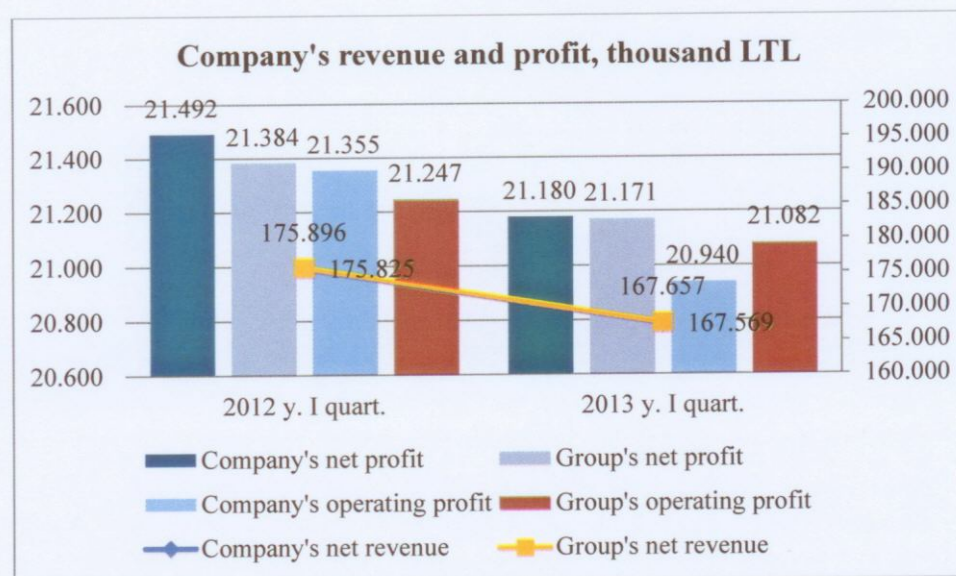
| No.  | Financial ratios  | Company<br>2012 y. | Group<br>2012 y. | Company<br>2012 y.<br>I quarter | Group<br>2012 y.<br>I quarter | Company<br>2013 y.<br>I quarter | Group<br>2013 y.<br>I quarter |
|------|---|--------------------|------------------|---------------------------------|-------------------------------|---------------------------------|-------------------------------|
| 1    | Net profitability, % (net profit /sales and services)*100                                     | 0,2                | 0,3              | 12,2                            | 12,1                          | 12,5                            | 12,6                          |
| 2    | Return on tangible assets, % (net profit/average value of tangible assets)*100                | 0,2                | 0,4              | 4,9                             | 5,0                           | 4,8                             | 4,9                           |
| 3    | Debt ratio (liabilities /assets)  | 0,41               | 0,42             | 0,35                            | 0,35                          | 0,38                            | 0,39                          |
| 4    | Debt-to-equity ratio (liabilities / equity)   | 0,7                | 0,7              | 0,5                             | 0,6                           | 0,6                             | 0,6                           |
| 5    | General liquidity ratio (short-term assets /short-term liabilities)                           | 0,85               | 0,85             | 1,84                            | 1,83                          | 1,60                            | 1,59                          |
| 6    | Asset turnover ratio ( sales and services/ assets)  | 0,82               | 0,83             | 0,39                            | 0,39                          | 0,36                            | 0,36                          |
| 7    | EBITDA (earnings before interest, taxes, depreciation and amortization) LTL thousand          | 20.814             | 21.239           | 26.064                          | 25.987                        | 25.614                          | 25.706                        |
| 8    | Gross profit margin (gross profit/sales and services)*100                                     | 0,2                | 0,2              | 12,1                            | 12,1                          | 12,5                            | 12,4                          |
| 9    | Return on equity (ROE) % (net profit/average equity)*100                                      | 0,3                | 0,4              | 7,5                             | 7,7                           | 7,5                             | 7,8                           |
| 10   | Return on assets (ROA) % (net profit/ average assets)*100                                     | 0,2                | 0,3              | 6,3                             | 6,5                           | 6,1                             | 6,3                           |
| 11   | Quick ratio((short-term assets-inventory)/short-term liabilities)                             | 0,82               | 0,81             | 1,27                            | 1,27                          | 1,05                            | 1,05                          |
| 12   | Cash ratio (cash in hand and at bank / short-term liabilities)                                | 0,05               | 0,05             | 0,09                            | 0,09                          | 0,06                            | 0,06                          |
| 13   | Net earnings per share (net profit/average weighted number of shares in issue)                | 0,02               | 0,03             | 0,5                             | 0,5                           | 0,49                            | 0,49                          |
| 14   | Net profit, LTL thousand  | 837                | 1.196            | 21.355                          | 21.247                        | 20.940                          | 21.355                        |
| 15   | Assets, LTL thousand  | 450.407            | 447.221          | 455.518                         | 451.543                       | 462.518                         | 459.547                       |
| 16   | Equity, LTL thousand  | 264.181            | 261.195          | 295.382                         | 291.929                       | 284.966                         | 282.277                       |
| 17   | Equity per share, LTL   | 6,2                | 6,1              | 6,9                             | 6,8                           | 6,7                             | 6,6                           |
| 18   | Revenue from sales, LTL thousand  | 369.462            | 369.723          | 175.462                         | 175.474                       | 166.853                         | 166.898                       |
| 18.1 | Heat energy   | 362.728            | 362.667          | 173.866                         | 173.830                       | 164.624                         | 164.585                       |
| 18.2 | Electric energy   | 460                | 460              | 59                              | 59                            | 50                              | 50                            |
| 18.3 | Supervision of indoor heating and hot water supply systems, heating substation facilities     | 399                | 721              | 130                             | 178                           | 67                              | 151                           |
| 18.4 | Income from emission permits and maintenance of collectors                                    | 775                | 775              | 194                             | 194                           | 194                             | 194                           |
| 18.5 | Hot water supply  | 4.818              | 4.818            | 1.165                           | 1.165                         | 1.839                           | 1.839                         |
| 18.6 | Income from maintenance of hot water meters   | 282                | 282              | 48                              | 48                            | 79                              | 79                            |
| 19   | P/E ratio (the last share market price of the year /(net profit/number of shares at year-end) | 101,90             | 71,32            | 2,87                            | 2,88                          | 3,59                            | 3,57                          |



|    |  |         |         |         |         |         |         |
|----|--|---------|---------|---------|---------|---------|---------|
| 20 | Share capital, LTL thousand  | 256.392 | 256.392 | 256.392 | 256.392 | 256.392 | 256.392 |
| 21 | Share capital-to-assets ratio  | 0,57    | 0,57    | 0,56    | 0,57    | 0,55    | 0,56    |
| 22 | Return on equity (capital) (net profit/<br>capital and reserves)*100 | 0,3     | 0,5     | 8,2     | 8,2     | 8,0     | 8,1     |

The comparison of the Company's financial results for the first quarter of the year 2013 (sales revenue, operating profit, net profit) with those for the first quarter of the year 2012 is given in Chart 3.

Chart 3



A more detailed analysis of the Group's and the Company's financial results is presented in the Notes to the Financial Statements for the first quarter of the year 2013.

The comparison of non-financial indicators for the first quarter of the year 2013 with the ones for the first quarter of the year 2012 is given in Table 2 below.

Table 2

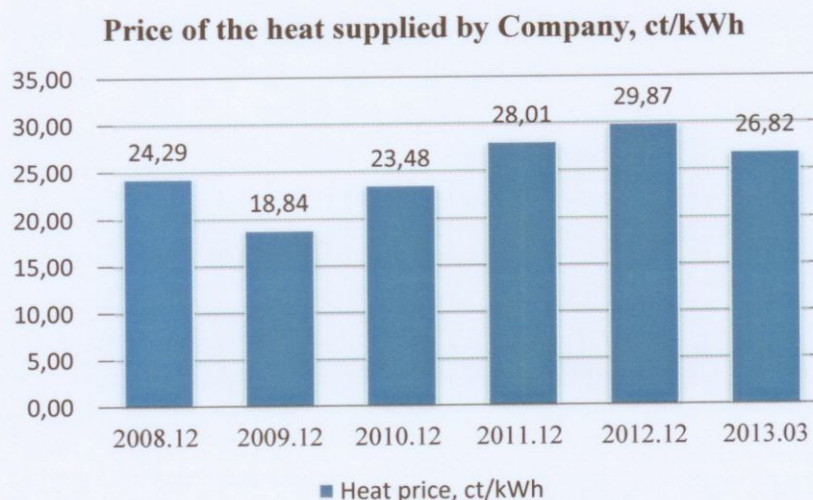
| No.  | Non-financial indicators   | Measure units | Company 2012 y. | Group 2012 y. | Company 2012 y. I quarter | Group 2012 y. I quarter | Company 2013 y. I quarter | Group 2013 y. I quarter |
|------|--|---------------|-----------------|---------------|---------------------------|-------------------------|---------------------------|-------------------------|
| 1.   | Energy produced and purchased:<br>from which supplied to the network | thousand MWh  | 1.532,9         | 1.532,9       | 703,5                     | 703,5                   | 688                       | 688                     |
| 1.1. | Heat energy  | thousand MWh  | 1.531,4         | 1.531,4       | 703,3                     | 703,3                   | 687,8                     | 687,8                   |
| 1.2. | Electric energy  | thousand MWh  | 1,5             | 1,5           | 0,2                       | 0,2                     | 0,2                       | 0,2                     |
| 2.   | Energy sold  | thousand MWh  | 1.251,4         | 1.251,2       | 603,0                     | 603,0                   | 591,8                     | 591,8                   |
| 2.1. | Heat energy  | thousand MWh  | 1.249,9         | 1.249,7       | 602,8                     | 602,8                   | 591,6                     | 591,6                   |
| 2.2. | Electric energy  | thousand MWh  | 1,5             | 1,5           | 0,2                       | 0,2                     | 0,2                       | 0,2                     |

*Environmental impact on operation.* The Company's performance can be affected by changes in sales turnovers caused by changed heat demand, which can be caused by consumers' investments into renovation of buildings, heat saving and rational consumption, average higher of lower outdoor temperature during the heating season, changes in fuel prices, heat purchase price from independent producers.



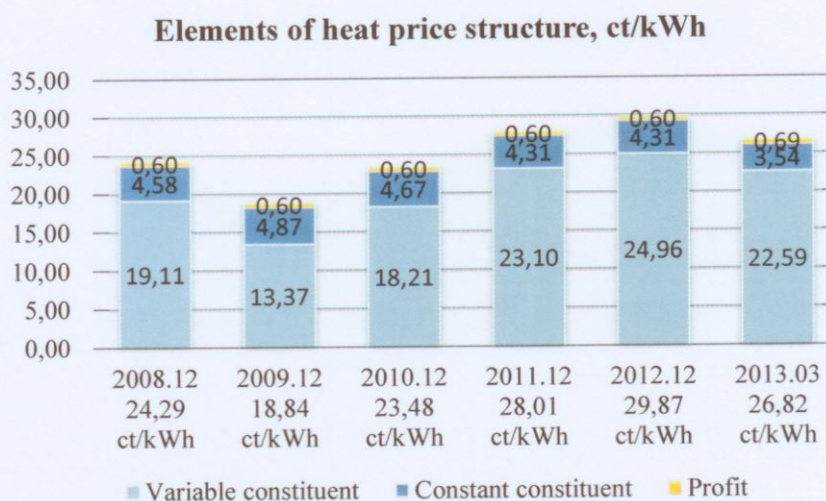
The change in the prices of heat supplied by the Company during 2008 to 2013 is presented in Chart 4.

Chart 4



Elements of Company's heat price structure during 2008 – 2013 are given in Chart 5.

Chart 5



Other information related with environmental issues, treatment of waste and waste water, air pollution and with personnel issues has not been changed from the information, announced in AB Kauno Energija consolidated annual report for the year 2012.

#### 8. References to and additional explanations of data presented in the annual financial statements, and key features of internal control and risk management systems relating to the preparation of the consolidated financial statements

All main financial data of the Group and the Company are presented in the Consolidated and AB Kauno Energija financial statements and Notes for the first quarter of the year 2013.

*Internal control over consolidated financial statements.* When preparing its consolidated financial statements, the Company combines the financial statements of the Company and its subsidiary line-by-line, by summing up the items of assets, liabilities, equity, revenue and expenses. Afterwards, it eliminates: the book value of the Company's investment into the subsidiary and the Company's share of equity in the subsidiary; balance sheet balances, transactions, income and expenses inside the group (for this purpose, it



prepares a reconciled report of all transactions, income and expenses for the period); difference in depreciation of contribution in kind measured at market value as compared to its book value.

For the purpose of preparing the consolidated financial statements of the group, the financial statements of the Company and the subsidiary are prepared as of and for the same date.

The Company's and the subsidiary's accounting policy is checked to determine whether it is the same when accounting for similar transactions.

The subsidiary's income and expenses are included into the consolidated financial statements as of the date of acquisition.

## 9. Significant events after the end of the I quarter of the year 2013

After completion of procedures of reorganization of AB Kauno Energija subsidiary UAB Pastatų Priežiūros Paslaugos in the way of dissociation, statutes of continuing its activities UAB Pastatų Priežiūros Paslaugos (company code 300580563) and of the newly established legal entity UAB Kauno Energija NT (company code 303042623) were registered at the Register of Legal Entities on 16 April 2013.

On 18 April 2013 the debt netting harmonization act regarding LTL 8,164,102.10 debt of UAB Kauno Termofikacijos Elektrinė to AB Kauno Energija, thus reducing the amount of AB Kauno Energija payables to UAB Kauno Termofikacijos Elektrinė for heat purchased has been signed between AB Kauno Energija and UAB Kauno Termofikacijos Elektrinė. This act has been signed considering that as the amendments of Heat energy purchase - sale agreement and Investment Agreement of 31 March 2003, which were signed between UAB Kauno Termofikacijos Elektrinė and AB Kauno Energija on 13 August and 2012 and 28 September 2012, came into force on 7 March 2013, UAB Kauno Termofikacijos Elektrinė withdrew with the statement to Lithuanian Court of Appeal on 13 March 2013 an appeal on decision of 11 December 2011 of the Vilnius Commercial Arbitration Court in case No. 203, by which a fine in amount of LTL 7,053,540 Lt in favour of AB Kauno Energija from UAB Kauno termofikacijos Elektrinė regarding unfulfilled investments, as well as procedural interest and costs of litigation has been awarded.

On 22 April 2013 The Management Board of AB Kauno Energija, performing functions of the sole shareholder of UAB Pastatų Priežiūros Paslaugos (company code 300580563), allowed administration to start selling procedures of 100 of ordinary shares of UAB Pastatų Priežiūros Paslaugos (the nominal value of the share is LTL 100). The Management Board of AB Kauno Energija made this decision considering provisions of the Law on Change and Addition of the Chapters 2, 3, 20, 22, 28 and 31 of the Law on Heat Sector of the Republic of Lithuania of 20 May 2003, the main essence of which is to dissociate maintenance of buildings' heating and hot water systems from heat production and supplies. Starting from 1 July 2012 and according to these provisions "heat supplier or persons related with heat supplier with job relations or supplying goods, or providing facilities to heat supplier are not able to be a supervisors (operators) of heating and hot water systems" in blocks of flats. This prohibition is not applicable for supervision of heating and hot water systems in blocks of flats situated in populated localities with less than 50,000 inhabitants according to the Lithuanian Department of Statistics.

On 30 April 2013 a Meeting of shareholders of AB Kauno Energija has been held. A part of Company's profit in amount of LTL 150 thousand has been divided to sponsorship needs in it.

## 10. Plans and forecasts of the activities of the group of companies

Investments create a strong potential for the sustained business development and profitability. The aim of the Group's and the Company's investment program for the year 2013 is to further develop the Company's heat production, transmission and distribution through increase of use of bio-fuel for heat production, heat supply reliability, expansion of maintenance services of engineering systems and improvement of services quality.

The main investment goals of the Company for 2013 – 2016 regulation period are as follows: decrease of heat production expenses in existing sources, implement cheaper sorts of fuel (bio-fuel), increase capacity of own sources until fulfilment of consumer's needs. Implementing 2013–2016 years investments a new water



heating boiler with capacity of 18 MW will be installed in Pergalė boiler-house for increasing of production process effectiveness, connecting it to existing condenser (economizer). An existing 9 MW capacity water heating boiler is adopted for bio-fuel burning in Šilkas boiler-house in order to increase boiler-house effectiveness. It's planned to install a second bio-fuel burned water heating boiler in Šilkas boiler-house in 2014 with common condenser (economizer) for both boilers. It is predicted to install two bio-fuel burned water heating boilers for LTL 12 million in Inkaras boiler-house of capacity 8 MW each with 4 MW capacity smoke condenser (the total capacity will contain 20 MW). At II stage it's predicted to implement a construction of bio-fuel co-generation power plant with 15 MW heat and 5 MW electric capacities in Inkaras boiler-house. Investment demand will conclude approximately LTL 50 – 60 million. Predicted amount of heat production in Inkaras boiler-house is up to 17 % of network demand.

It is also predicted to reconstruct BKZ boiler in Petrašiūnai power plant adapting it to bio-fuel use and co-generation of "green" electricity (16 MW) and heat (approximately 44 – 50 MW). Preparatory works are implemented, a conclusion of environmental impact assessment is accomplished, participation in NCC's "green" electricity auction was taken and negotiations with investing partner (Lietuvos Energija, AB) are under way.

On 16 January 2013 agreements regarding financing of projects "Reconstruction of Noreikiškės boiler-house equipping it with bio-fuel burned 4 MW capacity water heating boiler" in amount of LTL 2.299 million and for the project "Reconstruction of Ežerėlis boiler-house equipping it with bio-fuel burned 3.5 MW capacity water heating boiler" in amount of LTL 1.791 million were signed with Lithuanian Environmental Investments Fund under the financing measure "Equipment of bio-fuel boilers with capacity from 500 kW to 5 MW for central heating supplies in municipalities where total number of inhabitants does not exceed 100 thousand".

On 4 March 2013 a financing for the project "Pergalė" boiler-house reconstruction equipping it with smoke condenser (economizer)" in amount of LTL 0.638 million has been allocated by the order of Minister of Environment of the Republic of Lithuania on No. D1-181 "Regarding financing allocation for the projects under the financing measures of the Lithuanian Environmental Investment Fund use in 2012".

In the year 2013 a contract works of investment projects "Modernization of Kaunas integrated network Aukštieji Šančiai main (2Ž) (project code VP2-4.2-ŪM-02-K-02-006) and "Reconstruction of Kaunas integrated network Vilijampolė heating network (9K) from Inkaras boiler-house to Šilainiai catchment" (project code VP2-4.2-ŪM-02-K-02-007), partly financed from European Union are implemented. The contracts for those projects implementation were signed by the Company on 9 October 2012.

All above mentioned investment projects are included in Company's 2012 – 2015 corrected investment plan and its financing sources, which was approved by Kaunas city municipality council on 17 November 2012 by the decision No T-627. The projects are successfully started to implement and will be finished in 2014.

Except above mentioned projects the implementation of Company's investment program in 2012 will involve: further modernization of boiler-houses owned by the Company, making the production process automated and mounting condensers (economizers); reconstruction of heat networks; replacement of heat meters. The implementation of these measures will allow to reduce heat production, transmission and selling losses and to perform optimization of heat supply to the consumers and to ensure heat supplies reliability.

The Company started to implement services of operator of energy objects in 2013. Heating equipment repairs and other services help the Company earn an additional income. Expanding of these activities in future, proposing energy saving services and earning additional income in other ways a new possibilities of heat prices compensation due to the future decrease in heat sales would, related to renovation of buildings, would come into existence.

Other information has not been changed from the information, announced in AB Kauno Energija consolidated annual report for the year 2012.



**11. Information on research and development activities of the group of companies**

In 2012, "Petrašiūnai Power Plant Business Plan" prepared by Kaunas University of Technology has been renewed. Following this plan a biomass burned boiler with capacities up to 44 MW of heat and with up to 16 MW of electric power steam turbine is planned to install in 2013 – 2015. By burning wood it would not be necessary to use a Greenhouse Gas Emission Allowances and only this amounts approximately to LTL 1 million per year. The power of electric generator would be used and a high amount of "green" energy would be produced and it would create an assumption for heat prices reduction.

Following the provisions of Law on Heat Sector of the Republic of Lithuania and allowing development of competition in heat production sector, the Company initiated and accomplished work "Preparation of regulations of implementation of order of centrally supplied heat purchase" (hereinafter – Heat Networks Code), in which existing and predicted requirements of connection of independent heat producers to central heating networks and principles, ways and processes of heat selling – purchase are described in details. It is also offered what must be implemented seeking a transparent and fluent trade with independent heat producers. Principles, provisions and concepts of organizational structure of heat market, technological regulations of central heat supplies systems functioning, order of heat energy trade, regulations of central heat supplies services rendering and reimbursement, regulations of central heat supplies development, regulations of reserves accumulation and use, central heat supplies system functioning in accidents or repair occasions, contention resolving are detailed. The document is discussed in Kaunas city municipality at this time.

Other information has not been changed from the information, announced in AB Kauno Energija consolidated annual report for the year 2012.

**12. Information on own shares acquired and held by the Issuer**

Neither the Company, nor its subsidiary had acquired the Company's own shares. Neither the Company nor its subsidiary purchased or sold own shares during the reporting period.

**13. Information on financial risk management aims, hedging instruments in use that are subject to hedging accounting, and the scope of exposure of the group of companies to price risk, credit risk, liquidity risk and cash flow risk, provided the group of companies uses financial instruments and it is important for the assessment of assets, equity, liabilities, financial position and performance results of the group of companies**

All relevant information on this issue is presented in Notes 2.11, 15, 23, 24 to the financial statements for the first quarter of the year 2013.

**14. Information on the Issuer's branch office and subsidiary undertakings**

By the decision of the Company's Board, the Company's branch office Jurbarko Šilumos Tinklai was established and registered on 9 September 1997 at address: V. Kudirkos str. 11, 4430 Jurbarkas. Heat produced in the branch of the Company is sold to the consumers in Jurbarkas city.

At the first quarter of the year 2013, the Company's branch office Jurbarko Šilumos Tinklai had 34 employees.

On 1 July 2006, the Company's subsidiary undertaking UAB Pastatų Priežiūros Paslaugos was registered at address: Savanorių ave. 347, 49423 Kaunas - 43, company code 300580563.

The Board of UAB Pastatų Priežiūros Paslaugos approved on 26 November 2012 a project of conditions of dissociation of UAB Pastatų Priežiūros Paslaugos. On 12 December 2012 in pursuance of Subsidiary's reorganization procedures the conditions of Subsidiary's dissociation were announced in publication of the Register of Legal Entities and a changed legal status was registered, i. e. the status of legal person taking part in dissociation has been registered.



On March 31, 2013 an authorised capital of the subsidiary in amount of LTL 4 602 100 was registered at the Register of Legal Entities and it is divided into 46 021 ordinary shares at the nominal value of LTL 100 each.

The Company's subsidiary UAB Pastatų Priežiūros Paslaugos has no shareholdings directly or indirectly managed in other companies.

Activities of UAB Pastatų Priežiūros Paslaugos is a maintenance of heat points equipment and of heating and hot water supply systems of buildings, a repair of buildings and of heat points equipment as well as of heating systems equipment, also a transportation facilities and as the other activities – a rent of premises.

Subsidiary's turnover of the first quarter of the year 2013 was LTL 358 thousand, and the loss was LTL 145 thousand.

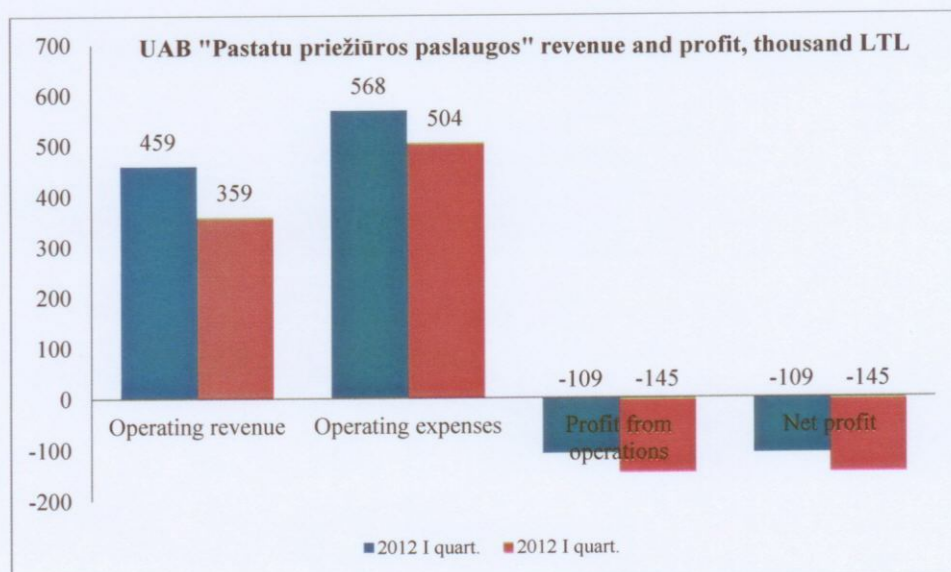
Starting from July 1, 2012 and according to the item 2 of the article 20 of the Law on Heat Sector of the Republic of Lithuania "heat supplier or persons related with heat supplier with job relations or supplying goods, or providing facilities to heat supplier, or producers of fuel, used in heat production, or producers of appliances or other equipment, used in heat supply activities as well as persons making business in wholesale or retail trade of fuel, used in heat production, or persons along with above mentioned persons belonging to the group of subjects in accordance to the Law on Competition are not able to be a supervisors (operators) of heating and hot water systems" in blocks of flats (this prohibition is not applicable for supervision of heating and hot water systems in blocks of flats situated in populated localities with less than 50 000 inhabitants according to the Lithuanian Department of Statistics).

Considering provisions of the Law on Change and Addition of chapters 2, 3, 20, 22, 28 and 31 of the Law on Heat Sector of May 20, 2003 regarding dissociation of maintenance of buildings' heating and hot water systems from heat production and supply, Company's Board, pursuing dissociation of activities of Subsidiary, made a decision on 22 March 2013 to reorganize UAB Pastatų Priežiūros Paslaugos in the way of dissociation and to establish a new legal entity UAB Kauno Energija NT. The Company's Board approved the terms of dissociation as well as statute of continuing its activities UAB Pastatų Priežiūros Paslaugos and statute of newly established legal entity UAB Kauno Energija NT.

As at March 31, 2013 a 23 employees were employed in Subsidiary.

A comparison of financial figures (operating revenue, profit from operations, net profit) of UAB Pastatų Priežiūros Paslaugos of the first quarter of the year 2013 and the first quarter of the year 2012 is presented in Chart 6.

Chart 6



## 15. Structure of authorized share capital

As of 31 March 2013 the registered authorized capital is LTL 256,391,862 (Two hundred and fifty six million three hundred and ninety one thousand eight hundred sixty-two).

The Issuer's share capital structure by type of shares is presented in Table 3.

Table 3

| Type of shares             | Number of shares, units | Par value, LTL | Total nominal value, LTL | Ownership interest of municipalities, % | Ownership interest of individual shareholders, % |
|----------------------------|-------------------------|----------------|--------------------------|---|--|
| Ordinary registered shares | 42,731,977              | 6              | 256,391,862              | 98.33                                   | 1.67   |
| Total:                     | 42,731,977              | 6              | 256,391,862              | 98.33                                   | 1.67   |

## 16. Data on shares issued by the Issuer

As of 26 March 2010 the registered authorized capital is LTL 256,391,862 (Two hundred and fifty six million three hundred and ninety one thousand eight hundred sixty-two) and is divided into 42,731,977 (forty-two million seven hundred thirty one thousand nine hundred and seventy seven) ordinary registered shares of LTL 6 nominal value.

No restrictions exist in respect of transfer of securities.

### 16.1. The main characteristics of shares issued for public traded securities (31 March 2013).

|                               |                                       |
|-------------------------------|---------------------------------------|
| Securities registration No    | A01031430                             |
| VP ISIN code                  | LT0000123010                          |
| Number of shares              | 20,031,977 ordinary registered shares |
| Nominal value                 | LTL 6                                 |
| Total nominal value of shares | LTL 120,191,862                       |

### 16.2. The main characteristics of shares distributed and registered for circulation privately (31 March 2013).

|                               |                 |
|-------------------------------|-----------------|
| VP ISIN code                  | LT0000128407    |
| Number of shares              | 22,700,000 PVA  |
| Nominal value                 | LTL 6           |
| Total nominal value of shares | LTL 136,200,000 |

Trading history of the Company's securities is presented in Table 4.

Table 4

| Trading history data                | 2009         | 2010        | 2011        | 2012        | 31-03-2013  |
|-------------------------------------|--------------|-------------|-------------|-------------|-------------|
| Open (litas/euro)                   | 2.00/0.579   | 2.45/0.710  | 2.072/0.600 | 1.951/0.565 | 1.996/0.578 |
| Highest (litas/euro)                | 2.65/0.768   | 3.18/0.921  | 2.659/0.770 | 2.037/0.590 | 2.033/0.589 |
| Lowest (litas/euro)                 | 1.41/0.408   | 1.903/0.551 | 1.105/0.320 | 1.433/0.415 | 1.647/0.477 |
| Last (litas/euro)                   | 2.40/0.695   | 2.072/0.600 | 1.209/0.350 | 1.996/0.578 | 2.003/0.580 |
| Traded, units                       | 92,418       | 77,729      | 90,239      | 80,421      | 4,922       |
| Turnover million (litas/euro)       | 0.19/0.05    | 0.2/0.06    | 0.18/0.05   | 0.13/0.04   | 0.01/0.00   |
| Capitalization million (litas/euro) | 102.28/29.62 | 41.5/12.02  | 24.21/7.01  | 39.98/11.58 | 40.12/11.62 |



Historical data on share prices and turnovers during 2009 to 2013 is illustrated in Chart 7.

Chart 7



Comparison of AB Kauno Energija share price with OMX Vilnius index in the sector

Chart 8



Chart 8 data:

| Index/shares | 1 Jan 2009 | 31 Mar 2013 | +/-%   |
|--------------|------------|-------------|--------|
| OMX Vilnius  | 179.25     | 393.63      | 119.60 |
| B7500GI      | 668.31     | 1,131.00    | 69.23  |
| KNR1L        | 0.58 EUR   | 0.51 EUR    | -11.95 |



## 17. Information on the Issuer's shareholders

As of 31 March 2013, the total number of shareholders of AB Kauno Energija was 329.

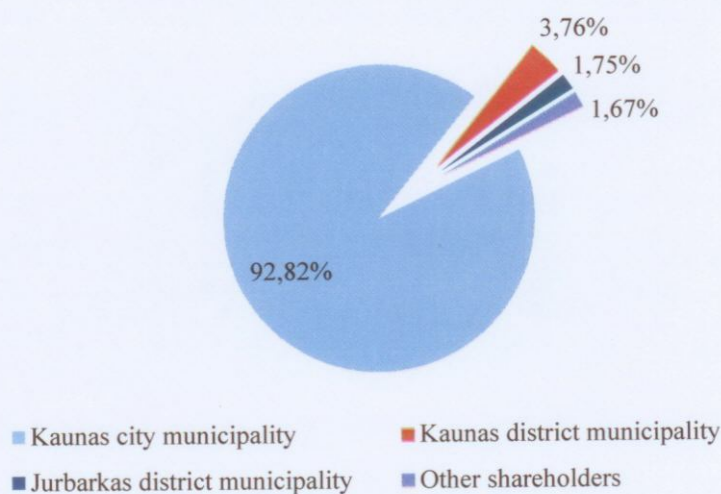
The Issuer's shareholders, whose ownership interest as at 31 March 2013 exceeded 5% of the Company's authorized share capital (42,731,977 ordinary registered shares) registered on 26 March 2010, are listed in Table 5 with additional data illustrated in Chart 9.

Table 5

| Full name of shareholder<br>(company name, type,<br>registered address, code)          | Number of ordinary<br>registered shares<br>owned by the<br>shareholder, units | Ownership<br>interest, % | Share of votes<br>attributed to the<br>shares<br>owned, % | The share of votes<br>owned by<br>shareholders and<br>jointly acting<br>persons, % |
|--|---|--------------------------|---|--|
| Kaunas city municipality<br>Laisvės Ave. 96, 44251<br>Kaunas<br>Company code 111106319 | 39,665,892  | 92.82                    | 92.82   | -  |
| Other minority shareholders  | 3,066,085   | 7.18                     | 7.18  | -  |
| Total  | 42,731,977  | 100                      | 100   | -  |

Chart 9

Shareholders structure as at 31 March 2013



17.1. The shareholders, whose ownership interest as of 31 March 2013 exceeded 5% of the Company's shares (20,031,977 ordinary registered shares) issued for public trading (registration No. A01031430; VP ISIN code – LT0000123010), are listed in Table 6.

Table 6

| Name  | Type of shares                    | Number of shares, units | Total nominal value of shares, LTL | Portion of shares (%) as a percentage of shares issued for public trading | Ownership interest (%) |
|---|-----------------------------------|-------------------------|------------------------------------|---|------------------------|
| <b>Kaunas city municipality</b><br>Laisvės 96, 3000 Kaunas<br>Company code 111106319              | Ordinary registered shares        | 16,965,892              | 101,795,352                        | 84.69   | 39.70                  |
| <b>Kaunas district municipality</b><br>Savanorių Ave. 371, 49500 Kaunas<br>Company code 111100622 | Ordinary registered shares        | 1,606,168               | 9,637,008                          | 8.02  | 3.76                   |
| Other minority shareholders   | Ordinary registered shares        | 1,459,917               | 8,759,502                          | 7.29  | 3.42                   |
| <b>TOTAL</b>  | <b>Ordinary registered shares</b> | <b>20,031,977</b>       | <b>120,191,862</b>                 | <b>100</b>  | <b>46.88</b>           |

17.2. The shareholders, whose ownership interest as at 31 March 2013 exceeded 5% of the Company's shares (22,700,000 ordinary registered shares) issued for non-public trading (VP ISIN code – LT0000128407), are listed in Table 7.

Table 7

| Name   | Type of shares             | Number of shares, units | Total nominal value of shares, LTL | Portion of shares (%) as a percentage of shares issued for public trading | Ownership interest (%) |
|--|----------------------------|-------------------------|------------------------------------|---|------------------------|
| <b>Kaunas city municipality</b><br>Laisvės Ave. 96, 44251 Kaunas<br>Company code 111106319 | Ordinary registered shares | 22,700,000              | 136,200,000                        | 100   | 53.12                  |

None of the Issuer's shareholders have any special control rights. Rights of all shareholders are equal, and they are defined in Article 4 of the Lithuanian Law on Companies. The number of shares, which grant votes during the general meeting of shareholders of the Company, is 42,731,977.

The Company is not aware of any restrictions on voting rights or any other arrangements among the shareholders that could result in restriction of transfer of securities and (or) voting rights.

In 2010 Issuer's shareholders received dividends. Earnings per share (dividend rate) were LTL 0.084, total dividends – LTL 3,589,486 (three million five hundred eighty nine thousand four hundred eighty six).

In 2011, the dividends were not committed and not paid for the Issuer's shareholders. The profit of the year 2010 was committed to investments, sponsoring and compulsory reserves.

Dividends from the 2011 year profit were allotted and paid for Issuer's shareholders. Earnings per share were LTL 0.25, total – LTL 10 683 000 (ten million six hundred eighty three thousand litas).

No dividends were allotted in the year 2013 by the decision of shareholders.



## 18. Employees

As of 31 March 2013, the Group had 594 employees. The change in the number of employees during 2011–2013 is illustrated in Table 8.

Table 8

| The actual number of employees | Company<br>31 12 2011 | Group<br>31 12 2011 | Company<br>31 12 2012 | Group<br>31 12 2012 | Company<br>31 03 2013 | Group<br>31 03 2013 |
|--------------------------------|-----------------------|---------------------|-----------------------|---------------------|-----------------------|---------------------|
| Total:                         | 583                   | 628                 | 583                   | 617                 | 571                   | 594                 |
| Including: managers            | 4                     | 6                   | 4                     | 6                   | 4                     | 5                   |
| specialists                    | 310                   | 325                 | 314                   | 327                 | 306                   | 314                 |
| workers                        | 269                   | 397                 | 265                   | 284                 | 261                   | 275                 |

The level of education of the Group's and the Company's employees as at the end of the period

Table 9

| No. | Education level        | Company<br>31 12 2011 | Group<br>31 12 2011 | Company<br>31 12 2012 | Group<br>31 12 2012 | Company<br>31 03 2013 | Group<br>31 03 2013 |
|-----|------------------------|-----------------------|---------------------|-----------------------|---------------------|-----------------------|---------------------|
| 1   | Secondary (unfinished) | 9                     | 11                  | 8                     | 9                   | 9                     | 10                  |
| 2   | Secondary              | 219                   | 245                 | 217                   | 231                 | 214                   | 225                 |
| 3   | Post-secondary         | 92                    | 98                  | 83                    | 89                  | 81                    | 86                  |
| 4   | Higher                 | 263                   | 274                 | 275                   | 288                 | 267                   | 273                 |
|     | Total:                 | 583                   | 628                 | 583                   | 617                 | 571                   | 594                 |

Average relative number of employees and average monthly salary (including taxes at the end of 31-03-2013)

Table 10

| No.  | Employees                              | Company | Group  |
|------|--|---------|--------|
| 1.1. | Average relative number of managers    | 3.8     | 4.5    |
| 1.2. | Average monthly salary of managers     | 8941.8  | 8115.6 |
| 2.1. | Average relative number of specialists | 286.2   | 293.2  |
| 2.2. | Average monthly salary of specialists  | 2812.7  | 2825.9 |
| 3.1. | Average relative number of workers     | 248.3   | 262.8  |
| 3.2. | Average monthly salary of workers      | 1996.6  | 1971.8 |

The salaries of the Issuer's employees consist of invariable part, variable part, extra pays and bonuses paid in accordance with the provisions of the Lithuanian Labour Code and other legal acts as well as Company's collective employment agreement. Bonuses are paid from net profit, provided the general shareholders meeting decides to allot a part of profit for the payment of bonuses to the Company's employees. Until the first quarter of the year 2013 the general shareholders meeting has not allotted any part of profit for the payment of bonuses to the Issuer's employees.

Company's collective employment agreement, signed on 28 January 2013 by the Company's General Manager, representing employer, and Company's Trade Union, representing Company's employees, a special rights and duties of issuer's employees are provided. Those rights and duties of issuer's employees or of part of them has not been changed from the information, announced in AB Kauno Energija consolidated annual report for the year 2012.

## 19. Procedure for amending the Issuer's Articles of Association

Articles of Association of AB Kauno Energija provide for that the general meeting of shareholders of the Company has an exceptional right to make amendments to the Company's Articles of Association with exceptions set forth in the Lithuanian Law on Companies. When making a decision in relation to amendment



of Articles of Association, the majority of 2/3 of votes of all the shareholders participating in general meeting of shareholders is required.

On 26 October 2010 Extraordinary General Meeting of Shareholders decided to change Company's statute evaluating the changes in legislation. On 11 November 2010 it was registered in Lithuanian Register of Legal Persons. It available to the Company's website at: [www.kaunoenergija.lt](http://www.kaunoenergija.lt).

## 20. Issuer's bodies

According to the Company's Articles of Association, the Company's managerial bodies are as follows: General Meeting of Shareholders, collegiate supervisory body – Supervisory Board, collegiate managerial body – Management Board and one-man managerial body – General Manager.

The decisions of the general meeting of shareholders made in relation to issues that fall within the competence of the general meeting of shareholders as set forth in the Articles of Association, are binding upon the shareholders, Supervisory Board, Management Board and General Manager, as well as upon other employees of the Company.

Individuals, who at the end of the reporting day of the general meeting of shareholders were the Company's shareholders, have the right to participate and vote at the General Meeting of Shareholders or at the repeatedly held General Meeting of Shareholders in person, with the exceptions set forth in relevant laws, or their authorized persons, or persons with whom the agreement on transfer of voting right was signed. The reporting day of the Company's meeting is considered to be the fifth business day before the General Meeting of Shareholders or the fifth business day before the repeatedly held General Meeting of Shareholders. The person participating at the general meeting of shareholders and having the right to vote is required to provide a document testifying his/her identity. The person, who is not the shareholder, beside the document testifying his/her identity is required to provide the document confirming his/her right to vote at the general meeting of shareholders.

The collegiate supervisory body – the Supervisory Board - is elected by the General Meeting of Shareholders in compliance with the procedure set forth in the Lithuanian Law on Companies. The Supervisory Board consists of 7 (seven) Supervisory Board members. The Supervisory Board members are elected for the period of 4 (four) years. The Supervisory Board elects the Chairman of the Supervisory Board from its members. The General Meeting of Shareholders has the right to recall the entire Supervisory Board or its individual members prior to the expiry of their term of office. If the individual members of the Supervisory Board are elected, they are elected only for the current Supervisory Board's term of office.

The Supervisory Board elects and recalls from their duties the members of the Management Board, supervises the activity of the Management Board and the General Manager, presents to the General Meeting of Shareholders various opinions and suggestions on the Company's activity strategy, annual financial statements, profit (loss) distribution project and the Company's annual report, also on the activity of the Management Board and General Manager, provides suggestions to the Management Board and the General Manager to recall their decisions which contradict with the laws and other legal acts, the Company's Articles of Association or decisions of the General Meeting of Shareholders, decides on other issues relating to supervision of activities of the Company and its managerial bodies that are attributed by the General Meeting of Shareholders to the competence of the Supervisory Board. The Supervisory Board has no right to delegate or transfer its functions set forth in the Lithuanian Law on Companies to other bodies of the Company.

Supervisory Board approves an internal instructions of audit committee formation and elects members of audit committee in accordance with August 21, 2008 decision N° 1K-18 of Securities Commission of the Republic of Lithuania "Regarding requirement to audit committees", "Guidelines of use of requirements for audit committees", which were approved by November 28, 2008 Securities Commission decision. Company's Supervisory Board approved on 21 February 2013 a new edition of internal instructions of AB Kauno Energija audit committee.

On 21 February 2013 the Supervisory Board approved members of audit committee Mrs Valerija Stankūnienė, Company's Deputy Chief Accountant, and Mrs Inga Dragūnienė, Senior Economist of



Economic and planning unit of Company's Department of Finances. On 10 April 2013 the Supervisory Board appointed Mrs Edita Gudišauskienė, member of the Supervisory Board, as an independent member of audit committee of AB Kauno Energija and determined that a new independent member of audit committee starts her activity from 11 April 2013.

Pursuing its activities audit committee follows internal instructions of Company's audit committee approved on 5 July 2012 by the Company's Supervisory Board. Audit committee implements functions, provided in Chapter 52 of Law on Audit of the Republic of Lithuania. Audit committee had no sessions in 1<sup>st</sup> quarter of the year 2013.

Mrs. Inga Dragūnienė, senior economist of the Company's Economics and Planning unit of the Department of Finances. Member of audit committee since 18 August 2011, on 3 January 2012 was re-elected as member of audit committee. She has a university education, Kaunas University of Technology, master of management sciences in the field of finances management (2001). Workplaces and positions over the last 10 years: 15-10-1998—25-07-2006 – the senior accountant of AB Kauno energija; 26-07-2006 – 01-11-2009 – UAB Pastatų Priežiūros Paslaugos deputy chief accountant; 02-11-2009 – 07-05-2010 – UAB Pastatų Priežiūros Paslaugos referent.

Mrs. Dragūnienė has no shares of the Company, nor any ownership interest in other Lithuanian companies.

Mrs. Valerija Stankūnienė, deputy chief accountant of the Company. Member of audit committee since 18 August 2011, on 3 January 2012 was re-elected as member of audit committee. Education – university degree, Vilnius University, accountant – economist (1983). Workplaces and positions over the last 10 years: 02-2003–01-2010 – UAB ARISBALTIJA Chief accountant; 02-1995 – 07-2002 – AB Šilkas chief accountant.

Mrs. Stankūnienė has no shares of the Company, nor any ownership interest in other Lithuanian companies.

Mrs. Edita Gudišauskienė, Chief Officer of Economic and Finances of UAB Kauno Autobusai, member of Company's Supervisory Board, Company's independent member of audit committee. Her activity as an independent member of audit committee started from 11 April 2013. She has a university education, Kaunas University of Technology, Faculty of Mechanics, master in thermo-engineering (1995), Faculty of Economics and Management, master in finances management (2001), Faculty of Social Sciences, master in regional development – public administration. Workplaces and positions during the last 10 years: 02-04-2000 – 25-07-2006 – Chief accountant of Children Rights Protection Service of Kaunas city municipality administration; 31-08-2006 – 29-03-2007 – Senior specialist; 2007 – 2010 – Adviser to Kaunas city mayor for communities and social issues; 2010 – 2011 – Director of Kaunas city municipality administration; 2011 – 2012 – Adviser to the Minister of Agriculture of the Republic of Lithuania.

The Management Board is a collegiate managerial body of the Company, which consists of 7 Management Board members. The Management Board is elected by the Supervisory Board for the term of 4 (four) years. The Supervisory Board has the right to recall the entire Management Board or its individual members prior to the expiry of its term of office. If the individual members are elected, they are elected only for the current Management Board's term of office. The Management Board elects the Chairman of the Board from its members.

The Management Board elects and recalls the General Manager of the Company, determines his/her salary, other employment terms and conditions, confirms his/her job description, motivates or assigns penalties, meets other the decisions related with LR Law on Companies, the Company's statutes or the shareholders meeting decisions, with the competence of the Board.

The General Manager is the manager of the Company. The manager of the Company is a one-man managerial body of the Company who organizes the Company's activity. The authority and responsibilities of the Company's administration members are determined by the order of the General Manager.

## 21. Members of the collegiate bodies, the company's manager, chief financier

*(job position, full name, data on ownership interest in the issuer's authorized share capital and the beginning and end dates of the term of office of every person, information about cash amounts estimated,*



*assets transferred and guarantees issued to these persons by the issuer during the reporting period in total, and average amounts per each member of the collegiate body, manager of the company, and chief financier)*

### 21.1. Data about the members of the Company's Supervisory Board:

*Members of Company's Supervisory Board on March 31, 2012:*

| Name, surname           | Position                      | Beginning of the term of office | End of the term of office |
|-------------------------|-------------------------------|---------------------------------|---------------------------|
| Andrius Kupčinskas      | Chairman of Supervisory Board | September 28, 2012              | April 30, 2016            |
| Stanislovas Buškevičius | Member of Supervisory Board   | September 28, 2012              | April 30, 2016            |
| Edita Gudišauskienė     | Member of Supervisory Board   | September 28, 2012              | April 30, 2016            |
| Aušra Ručienė           | Member of Supervisory Board   | September 28, 2012              | April 30, 2016            |
| Artūras Tepelys         | Member of Supervisory Board   | September 28, 2012              | April 30, 2016            |
| Gediminas Žukauskas     | Member of Supervisory Board   | September 28, 2012              | April 30, 2016            |

During the first quarter of the year 2013, 1 session of Supervisory Board took place. More than 2/3 of Supervisory Board members took part in all of the sessions.



Mr Andrius Kupčinskas, mayor of Kaunas city, member of Kaunas city municipality council, a chairman of Strategic planning commission. He's also a representative of Kaunas city municipality in Business council. He has no shares of the Company, nor any ownership interest in other companies.

Mr Stanislovas Buškevičius, deputy mayor of Kaunas city, member of Kaunas city municipality council, a member of Art and Culture committee, a chairman of Awards council. He has no shares of the Company, nor any ownership interest in other companies.



Mrs Edita Gudišauskienė, a member of Kaunas city municipality council, a chairman of Budget and Finances committee, a member of Strategic planning commission. She's also a member of Lampėdžiai Community Centre board. She has no shares of the Company, nor any ownership interest in other companies.

Mrs Aušra Ručienė, lawyer. Mrs Ručienė is a member of Kaunas city municipality council, a chairman of City Development, Investments and Tourism committee, a member of Control committee, a chairman of Anticorruption commission, a member of Strategic planning commission. Mrs Ručienė has no shares of the Company, but she's a shareholder of UAB Ručenta.





Mr Artūras Tepelys. Mr Tepelys is a member of Kaunas city municipality council, a member of Social, Health and Education committee, a chairman of Administration commission, a member of Anticorruption commission.

During the first quarter of the year 2013 earnings before-tax in amount of LTL 16 thousand were paid, but no annual payments were paid, nor any assets were transferred or guarantees issued.

Mr Gediminas Žukauskas. Mr Žukauskas is an Exploitation director at UAB Kauno Vandens. He's also a member of Kaunas City municipality Council, a chairman of Self-Government and communities development committee, a member of Titles Contriving and Perpetuation of Memories commission, a member of Privatization Commission, a member of Strategic Planning commission, a chairman of Panemunė Community centre. Mr Žukauskas has no shares of the Company, nor any ownership interest in other companies.



## 21.2. Data about the members of the Company's Management Board

As at March 31, 2013 the members of the Company's Management Board were as follows:

| Full name           | Job position                            | Beginning of the term of office | End of the term of office |
|---------------------|---|---------------------------------|---------------------------|
| Valdas Lukoševičius | Chairman of the Management Board        | September 28, 2012              | April 30, 2016            |
| Sigitas Groblys     | Deputy chairman of the Management Board | September 28, 2012              | April 30, 2016            |
| Juozas Augutis      | Member of the Management Board          | September 28, 2012              | April 30, 2016            |
| Rimantas Bakas      | Member of the Management Board          | September 28, 2012              | April 30, 2016            |
| Saulius Meškauskas  | Member of the Management Board          | September 28, 2012              | April 30, 2016            |
| Vaclova Miškinis    | Member of the Management Board          | September 28, 2012              | April 30, 2016            |
| Mindaugas Varža     | Member of the Management Board          | September 28, 2012              | April 30, 2016            |

8 sessions of the Company's Management Board were held during the first quarter of the year 2013. More than 2/3 members of the Management Board attended all the sessions.



Mr Valdas Lukoševičius, doctor of technical sciences, holds the position of the Company's Head of Department of Strategy and Investment Projects. Mr Lukoševičius is a chairman of the Company's Management Board since September 28, 2012. He's also a President of Lithuanian Energy Consultants Association, a docent of department of Thermal and Nuclear Energy of Kaunas University of Technology. Mr Valdas Lukoševičius has no shares of the Company, nor any ownership interest in other companies. During the first quarter of the year 2013 earnings before-tax in amount of LTL 10 thousand were paid, but no annual payments were paid, nor any assets were

transferred or guarantees issued.

Mr Sigitas Groblys, partner of law company Foresta, works at the Business law group. Mr Groblys is a member of the Company's Management Board since September 28, 2012. He's also a member of the Management Boards of companies UAB Orivas and UAB Litpirma, a chairman of Gintaras Steponavičius relief fund. Mr Sigitas Groblys has no shares of the Company, nor any ownership interest in other companies. During the reporting period any remuneration or annual payments were paid, nor any assets were transferred or guarantees issued.





Mr Juozas Augutis, professor, science prorektor of Vytautas Magnus University, professor in Mathematics and Statistics department of Vytautas Magnus University. Mr Augutis is a member of the Company's Management Board since September 28, 2012. He's also an actual member of Lithuanian Academy of Sciences, an expert of 6BP and 7BP, an expert of Lithuanian Science council, an expert of the State Studies Foundation, head of Energetic Security Research Centre, a chairman of Ignalina NPP security committee, a member of editorial staff of journals "Energetics", „Journal of Civil Engineering and Management“, and "Mathematics and mathematical patterning", a member of councils of Institute of Mathematics and Informatics and Lithuanian Energy Institute, a member of International Data Safety Association ESREDA SRA, a member of Vytautas Magnus University Senate and council, a member of Lithuanian Mathematics society and Statisticians union, a chairman of National science program "Cohesive Energy" arrangement group and of National science program "Future Energy" arrangement group. Mr Juozas Augutis has no shares of the Company, nor any ownership interest in other companies. During the reporting period any remuneration or annual payments were paid, nor any assets were transferred or guarantees issued.

Mr Rimantas Bakas, doctor of Technical sciences. General Manager of Kauno Energija AB. Member of Management Board of the Company from 3 May 2011 to 2 January 2012. Member of Lithuanian heating technique engineers association, Member of Board of Kaunas Regional Energy Agency, Member of Lithuanian District Heating Association Board, Member of Lithuanian Energy Institute's scientific board, the Chairman of Master's qualification commission in Kaunas University of Technology Thermal and Nuclear Engineering department, the expert approved by World's Energy Council the PET Committee of Lithuania. In 2008, Mr Bakas participated as the member of working group in preparation of research study „Europe's Vulnerability to Energy Crises“, which was presented to the European Commission. Mr Rimantas Bakas has no shares of the Company, or ownership interest in of other companies. During the first quarter of the year 2013 earnings before-tax in amount of LTL 39 thousand were. No annual payments were paid, nor any assets were transferred or guarantees issued.



Mr Saulius Meškauskas, deputy head of Energy department of Kaunas city municipality administration, member of the Company's Management Board since September 28, 2012. Mr Saulius Meškauskas has no shares of the Company, nor any ownership interest in other companies. During the reporting period any remuneration or annual payments were paid, nor any assets were transferred or guarantees issued.

Mr Vaclovas Miškinis, doctor, head of Complex Energy Research laboratory of Lithuanian Energy Institute, professor, member of Lithuanian Energy Institute's the Scientific Board, member of the Company's Management Board since September 28, 2012. Mr Vaclovas Miškinis has no shares of the Company, nor any ownership interest in other companies. During the reporting period any remuneration or annual payments were paid, nor any assets were transferred or guarantees issued.



Mr Mindaugas Varža, director at UAB Novrita, director at UAB Kauno Verslo Grupė, a member of the Company's Management Board since September 28, 2012. Mr Mindaugas Varža has no shares of the Company, nor any ownership interest in other companies. During the reporting period any remuneration or annual payments were paid, nor any assets were transferred or guarantees issued.



**21.3. Data about the Company's manager and chief accountant**

Mr Rimantas Bakas. General Manager of the Company since 24 November 2008, doctor of engineering. Member of Lithuania heating technique engineers association, sciences, a member of Board of Kaunas Regional Energy Agency, Member of Lithuanian District Heating Association Board, Member of Lithuanian Energy Institute's the scientific board, the chairman of Master's qualification commission in Kaunas University of Technology Thermal and Nuclear Engineering department, the expert approved by World's Energy Council the PET Committee of Lithuania. Member of Management Board of the Company from May 3, 2011 till January 2, 2012. Education: higher, university degree, graduated from Kaunas University of Technology in 1985, industry heat energy engineer. Job positions during the last 10 years were: from October 2001 to February 2003, Lithuanian Bioenergetics and Energy Saving Association, vice-president and executive director; from 1 March 2001 to 1 May 2003 – project manager of Strategy Department at the Company; from 2 May 2003 to 2 January 2006 – senior project manager of Strategy Department at the Company; from 3 January 2006 to 21 November 2008, Head of Strategy Department at the Company.

Mr Rimantas Bakas is awarded with a letters of thanks of Lithuanian Association of Heat Suppliers (2007), Lithuanian Association of Electricity Energetic (2008), a letter of the World Energy Council Lithuanian Committee (2010) and the medal of Memory of 600 years Jubilee of Kaunas city, the Symbol of Honour of Lithuanian Energetic (2011). He has no shares of the Company, or ownership interest in of other companies.

Mrs Violeta Staškūnienė. Chief Financier of the Company since 27 July 2000, and Chief Accountant since 16 January 2003. Education: higher, university degree, graduated from Vilnius University in 1984, work economy, acquired the profession of economist. Work record during the last 10 years and job positions held: from 22 June 1998 to 09 January 2000 – Chief Accountant of the Company's branch office Kauno Energijos Paslaugos; from 10 January 2000 – Deputy Chief Financier of special purpose public company Kauno Energija; from 1998 to April 2004 – Chief accountant of Itvizija UAB; from January 2003 to June 2004 – Chief accountant of Energijos Realizacijos Centras UAB. She holds 2,641 units of the Company's shares, which make less than 5% of the authorized share capital. She has no ownership interest in other companies.

During the first quarter of the year 2013, total remuneration estimated for the General Manager and Chief Accountant amounted to LTL 64 thousand, average amount per person – LTL 32 thousand; no other assets were transferred, no guarantees provided.

**22. All significant agreements, where the Issuer is one of the contractual parties, which would come into force, would be subject to amendments or termination in case of changes in controls of the Issuer, also their impact, except for those cases, when due to the nature of agreements, the disclosure of such agreements would cause significant damages to the Issuer**

None.

**23. All agreements of the Issuer and its managerial body members or employees, which provide for compensation in case of their resignation or termination of employment on no grounds or in case their employment is terminated due to changes in controls of the Issuer**

None.

**24. Information on major transactions with related parties**

There were no major individual transactions with related parties. Detailed information is presented in Note 26 to the financial statements.

**25. Information on compliance with the Governance Code of Companies**

Information on compliance with the Governance Code of Companies is presented in Annex 1 to the Annual Report. The report on Company's social initiatives and politics during the year 2012 is presented in Company's website.



**26. Data on publicly declared information**

To comply with the obligation set forth in the applicable legislation regulating the market of securities, the Issuer during the last 12 months declared in public the following information through GlobeNewswire news publication system, which is used to report announcements all over the European Union. This information was also placed on the Issuer's website. All information is available on **NASDAQ OMX Vilnius** website at address <http://www.baltic.omxgroup.com/?id=3304>.

| Heading of announcement   | Category of announcement       | Language | Time                   |
|---|--------------------------------|----------|------------------------|
| Regarding the second sale tender of block of shares of the Subsidiary   | Notification on material event | En, Lt   | 24.05.2013<br>12:54:52 |
| The claim of UAB Kauno termofikacijos elektrinė   | Notification on material event | En, Lt   | 07.05.2013<br>17:34:02 |
| Regarding the shares sale tender of the Subsidiary  | Notification on material event | En, Lt   | 06.05.2013<br>17:05:14 |
| Financial statements with the annual report   | Annual information             | En, Lt   | 30.04.2013<br>15:51:34 |
| Resolutions of the General Meeting of Shareholders of AB Kauno Energija   | Notification on material event | En, Lt   | 25.04.2013<br>17:24:48 |
| Activity results of the first quarter, 2013   | Notification on material event | En, Lt   | 23.04.2013<br>16:58:55 |
| Information on notification of Vilnius Commercial Arbitration Court   | Notification on material event | En, Lt   | 22.04.2013<br>17:12:33 |
| Concerning the settlement of Vilnius Court of Commercial Arbitration in Case No. 203                              | Notification on material event | En, Lt   | 18.04.2013<br>14:46:10 |
| Regarding the reorganization of subsidiary  | Notification on material event | En, Lt   | 18.04.2013<br>13:42:09 |
| A change in agenda of General meeting of AB Kauno Energija shareholders   | Notification on material event | En, Lt   | 17.04.2013<br>15:12:31 |
| General meeting of JSC "Kauno energija" shareholders and decisions projects                                       | Notification on material event | En, Lt   | 05.04.2013<br>19:01:07 |
| The audited activity result of the year 2012  | Notification on material event | En, Lt   | 05.04.2013<br>14:48:46 |
| Strategic directions of AB Kauno Energija activities for the regulatory period of the years 2013–2016             | Other information              | En, Lt   | 07.03.2013<br>16:25:12 |
| Regarding the influence of AB Ūkio Bankas situation on activities of AB Kauno Energija                            | Notification on material event | En, Lt   | 13.02.2013<br>15:51:16 |
| An intermediate unaudited financial statement of 12 months of the year 2012                                       | Interim information            | En, Lt   | 11.02.2013<br>16:58:07 |
| The activity result of 12 months, 2012  | Notification on material event | En, Lt   | 28.01.2013<br>16:35:25 |
| A Memorandum on Cogeneration power plant in Petrašiūnai was signed by AB Kauno energija and Lietuvos energija, AB | Other information              | En, Lt   | 11.01.2013<br>16:07:09 |

General Manager of AB Kauno Energija



Rimantas Bakas

30 May 2013

